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**DECEMBER, 1951**

## Among the Features



**This Issue Includes Index to Volume XL**

AMERICAN MANAGEMENT ASSOCIATION

M. J. Dooher, *Editor;* Vivienne Marquis, *Associate Editor*

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Volume XL No. 12
DECEMBER, 1951

The
# Management Review

A Partial List of
## Contents

## General Management

# WHAT'S AHEAD FOR BUSINESS IN 1952?

THE OPEN season is now at hand for year-end reviews and for speculation about the course of business activity in 1952. Numerous business enterprises in the weeks immediately ahead will be intensively examining their production targets, sales quotas, and capital programs for next year.

However, business analysts have, at best, only a limited experience with an economy engaged in partial war. This lack of historic parallel adds to the uncertainties which one encounters in attempting to appraise the probable course of industrial activity for the year ahead. Here are but a few of the open questions to which business men and economists alike will be seeking answers as the garrison state moves into the closing stages of its second year and on toward its third:

*How "abnormal" is the current pattern of consumer savings?* In World War II, this savings ratio rose to nearly 25 per cent of consumer income after taxes. Where between the 5 per cent ratio of peacetime and the 25 per cent ratio of total war does the savings ratio for the garrison state lie?

*How "abnormal" is consumer spending at retail currently?* Some forms of consumer hard goods are to be in short supply in the 1952 market. Will consumer expenditures for other goods and services move up to take up the slack of the items in short supply? In total war, the ratio of retail trade to consumer income declined sharply. Is it destined to decline again, but more slowly, in a garrison state?

*For how long can we continue the peak rate of capital formation of the past decade?* Has the step-up of plant and equipment expenditures of the past decade borrowed much demand from the future? Is it possible in a garrison state to reach a condition of "temporary over-capacity" in either military or civilian industries—or both?

*Has the price adjustment at the raw material level in the past seven months been absorbed into the price structure, or does it indicate a tendency for retail prices to decline over the next six months?* A significant proportion of civilian capacity remained idle in the second and third quarter. Does that suggest that consumer prices need not rise much in the near future, if no new breakthroughs are permitted on the wage front?

*Will productivity continue to advance in the coming year?* There were substantial gains in the last year or two. But in total war, physical output per manhour in civilian goods did not rise. What is the likely trend of productivity in a garrison state?

*What allowance should be made for the 1952 elections in appraising the business outlook?* Are presidential years typically years of high business activity?

The probable course of business in the months ahead, as seen by the Conference Board Economic Forum after a consideration of these open questions, is as follows:

*Government Spending.* The trend of defense spending in 1952 will be upward. The anticipated increase ranges from $25 billion to $30 billion. The rate of acceleration in the second half may not be as high as in the first half, but total gov-

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ernment spending should rise throughout the whole of the year.

*Capital Formation.* In the area of private capital formation, expenditures for plant and equipment by private industry in 1952 will continue at current peak rates, if not better. The major questions about capital formation arise not in the area of new factory plant and equipment but in the areas of residential and commercial construction and in inventories.

Home building and other commercial construction unrelated to defense should decline somewhat. Likewise, the accumulation of $17 billion in inventories of the past year will not be repeated. The heavy inventory position of the consumer and the restraint that he will exert upon the whole pattern of inventory accumulation at the business level will be felt.

On balance, private capital formation in 1952 should be a bit lower than in 1951. Demand should be high for new plant and equipment, but that would be offset by less pressure from housing and other non-defense construction as well as a lower set-aside for inventories. This, in turn, will provide a major offset for meeting rising defense needs without additional inflationary pressures. Thus far, then, the pattern for 1952 shows a substantial rise in government purchases of goods and services in 1952, with some relief from price pressure because of the prospective decline in private investment.

*Consumption.* By far, the largest market for the nation's output is personal consumption. That sector was misgauged last year when it was thought consumer spending of higher incomes would be automatic.

There is now a growing conviction that the savings ratio for a garrison state will bulge above peacetime levels. Savings should average 7 to 8 per cent of disposable income in 1952 rather than return to the ratio of about 5 per cent prevailing pre-Korea.

There is serious question about assuming a complete restoration in 1952 to the extremely high levels of consumption that prevailed in the immediate postwar years. For five years now we have seen the ratio of retail sales to disposable income hold at about 70 per cent. Prewar, that ratio (of retail sales to disposable income) was about 55 per cent-60 per cent. Belief has been widespread since the war's end that the redistribution of income as well as the rise in disposable income provided a sound foundation for this higher postwar ratio of retail sales. There is the possibility, however, that the downturn in retail sales relative to disposable personal income of the past eight months may be a more permanent characteristic of the garrison state than we are inclined to believe that pattern to be.

On the whole, there should be a further modest rise in both retail trade and total personal consumption in 1952—but no bonanza. Civilian spending should rise a bit above 1951—in part from higher prices and, in part, from greater unit consumption.

That, in general, is the pattern envisioned for 1952: higher defense spending, a modest increase in personal consumption expenditures, and a slight decline in private investment. The three combined should yield a gross national product—or level of general business activity—about 3 to 5 per cent higher than in 1951.

Continued price pressure of the magnitude that we knew in the immediate postwar years does not seem imminent for 1952. By mid-1952, deficit financing may intensify price pressure, but higher savings should contribute significantly toward closing the resulting inflationary gap.

True, rising defense outlays in 1952

should bulge both incomes and prices. But we are now nine months nearer the peak of the drain (or stimulus) of defense than we were when the "inflationary lull" first began. Business concern is steadily rising over the shape and strength of the economy after the defense peak is reached. That peak may be nearer than we think.

—From an address by MARTIN R. GAINSBRUGH (Chief Economist, National Industrial Conference Board) before the New York Credit and Financial Management Association.

## *Quality, Not Numbers*

THOUGH we are vastly outnumbered, our human resources can give us an advantage in the present struggle for survival if they are used effectively, according to *Scientific American*. With only 6 per cent of the world's population, we produce almost half its industrial goods; our population is growing faster than that of many other areas, and our numbers are great enough so that our future need depend only on the quality of our performance.

During the past century, the United States increased its population sixfold, while the world's population only doubled. From the viewpoint of power and economic welfare, however, other characteristics of our population may be more important than its size. We now have a favorable distribution of population between working and dependent ages, if we achieve effective employment of older workers. About 58 per cent of the population is of working age, with only a little more than 25 per cent under 15.

Though the highest birth rates are found among groups with the least education and the least resources for providing education for their children, recent studies have shown that intellectual ability is quite evenly distributed in every social level, and that a child, given maximum encouragement, is not limited by the mental level of his parents. While not all vocational fields require college training, there are serious present and prospective shortages in some of the fields where it is required, for instance, in medicine, engineering, and schoolteaching, and there is a large potential of intellectual resources which is not fully utilized because of lack of education. Not only is widespread financial help recommended, but also positive encouragement of promising students, who should be identified early and stimulated to rapid progress and advanced work.

—*Industrial Bulletin* (Arthur D. Little, Inc.) 9/51

## *Defining the Executive*

SINCE it's quite possible for executives to take themselves too seriously, here are a few current definitions of executives that are worth noting:

One goes: "An executive is a fellow who goes out and finds something that needs to be done. He then finds somebody willing to pay for it. Then he hires somebody to do it."

Another: "An executive is a man who goes around with a worried look on the face of his assistant."

Among non-executive cynics, the favorite definition appears to be: "An executive is a big gun—that hasn't been fired yet."

—*Public Relations Journal* 10/51

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NO INDUSTRY conforms completely to the idea of pure competition or pure monopoly, according to a Twentieth Century Fund survey. In many American industries, ordinarily regarded as competitive, competition is limited; in others, ordinarily regarded as monopolistic, monopoly is far from complete.

# FIVE TIPS ON PICKING YOUNG EXECUTIVES

How are executives picked today? Some are picked through the systematic assistance of the personality test, which uncovers the underlying man as only long and intimate association could otherwise do. However, in today's unusual circumstances, the normal processes of promotion are often short-circuited with the result that two kinds of bias frequently complicate company promotions: over-emphasis on personal loyalty and over-emphasis on seniority. As a result, the wrong man is often placed on the job.

Apart from professional evaluation of a man, there are five rough guides which can be used for appraising men under consideration for executive promotion. These guides, derived from psychological studies of hundreds of executives in all kinds of businesses, are as follows:

1. *Ambition.* Virtually every man, if asked directly whether he is ambitious, replies in the affirmative. It is almost un-American to confess a lack of ambition, yet there are a fair number of men who do not want increased responsibilities, greater duties, and heavier burdens. As executive, they are poor risks.

However, ambition is not simply a desire to get ahead. Psychological tests help us to distinguish three kinds of ambition—three kinds of goals which bring satisfaction to an executive. *Self-oriented* men seek to enhance their prestige in their own eyes. They need self-expression, a chance to prove their integrity and competence, and an opportunity to see personal ideas carried into action. Managerial and professional positions attract many persons who have such ambitions. *Social-oriented* men want prestige in the eyes of others. They seek recognition, praise, "position" in the business world, and recognized community stature. *Material-oriented* men, on the other hand, most urgently desire money and property; they want to build an "estate."

In any one person, of course, all these kinds of ambition are intermingled. Nevertheless, a man achieves his primary satisfaction from one of them, and the others are of secondary importance. It is, therefore, important to consider a man's goals before placing him.

2. *Attitudes toward policy.* Can he make constructive suggestions on how to achieve company goals or is he motivated solely by his own interests? Is he interested in company rules, or does he regard company policies as restraints on his opportunities?

3. *Attitudes toward his colleagues.* Is he highly competitive, pushing to outdo others, or is he congenial, forming close friendships with associates? Does he play company politics with office cliques, or is his stand on a problem known and his opinions candid? How does he respond to criticisms or differences? Is he blindly stubborn, contrary-minded, a yes-man?

The most promising candidate is one who is friendly with his rivals, who has good relations with his co-workers, who is candid but capable of adjusting his opinions, and who does not feel that seeing his views modified or even defeated is a reflection on his ability to think about another subject.

4. *Supervisory Skills.* Does he truly delegate work or does he use his subordinates to do only routine work? Can he maintain discipline without upsetting himself or his group? Does he set his employees against each other as a method of increasing their productivity, or can he foster cooperation and high morale among them? Is he fair toward employees who disagree with him? Is he happiest with a small group of loyal subordinates?

5. *Attitudes to excessive demands.* Is

be willing to take on overtime work, homework, special reports, and speech writing? Does he seem to have enough energy to carry responsibility for long stretches, or does he have chronic symptoms of backache or indigestion which keep him at home when the load is heaviest?

If a man measures up fairly well in these areas, he is likely to be a good risk for executive promotion. A few kinds of behavior are specifically unpromising: impulsive mistakes, rigid opinions or resistance to new methods or equipment, excessive talking about decisions without acting on them, and excessive moralizing about the "rightness" or "justice" of his views.

These five rough guides are not the last word in executive selection, but they are vital to successful operation in executive assignments. If the choice must be made without professional guidance, these working tools will stimulate constructive thinking about the man and his performance.

—HARRIET BRUCE MOORE. *Commerce*, October, 1951, p. 20:5.

## Significant Facts on Automobile Usage

HIGHLIGHTS from a survey on automobile usage conducted early this year showed:

92 per cent of cars are used each week for work, shopping, or both—73 per cent for work and 53 per cent for shopping.

27.5 million persons use passenger cars daily for earning a living.

48 per cent of car trips are for purposes of driving to work.

575 million miles are driven daily in going to and from work or on business.

28.4 per cent of adults living in households without cars nevertheless ride in cars every day. On an average day, out of 9.4 million such persons riding in a car, 3.7 million rode to work, and 1.3 million obtained a ride for shopping.

66.5 per cent of all households in the U. S. own cars, while 70.6 per cent of farm households own one or more cars.

80 per cent of households in the West, 76 per cent in the North Central states, 60 per cent in the Northeastern states, and 57 per cent in the Southern states own automobiles.

73 per cent of cars owned by unskilled workers are prewar models.

Average annual mileage per car decreases with age, from 12,260 in the first year to 5,890 for 1937 and earlier models. Also, annual mileage increases as size of city decreases.

Surveys by city traffic engineers in 35 cities ranging from those with less than 50,000 population up to those over 250,000, show that 74.1 per cent of people travel by automobile and 25.9 per cent by public transportation facilities.

—*Automobile Facts and Figures* (Automobile Manufacturers Association, Detroit 2, Mich.)

# WHY IS UNITED STATES INDUSTRY SO PRODUCTIVE?

WITH LESS than 7 per cent of the world's population, the United States produces almost 40 per cent of the world's goods. How is this possible? The answer lies in the combination of conditions found here, five of which have been particularly important in explaining the high productivity of American industry. These five are as follows:

1. *Security of person and property.* Many other countries provide security of person and property, but in large parts of the world, especially in the Near East and the Far East, the insecurity of property prevents savers from investing in productive plant and equipment and causes them to hoard precious metals or jewels or to invest in land. Thus the growth of the productive capacity of these regions is retarded.

2. *The lack of social stratification.* The starting of new businesses in the United States is not restrained by class lines which prevent or discourage large numbers of young men from attempting "to rise above their station." The lack of social stratification also encourages the children of all classes in the community to aspire to professional, technical, and managerial careers, thus making competition in these fields more intense. It is interesting to observe that the normal number of business births in the United States is about 200,000 a year.

3. *The rapid growth of population.* This is not a unique condition; however, in the United States, the rapidly growing population had abundant natural resources to develop. Also, the rapid development of the country, made possible in part by the growth of population, produced a persistent shortage of men and materials in relation to markets. This shortage helped to make managers and business owners eager to increase the capacity of their enterprises, and thus made them willing to try improved methods and equipment.

4. *The large middle class in the United States.* One of the conspicuous contrasts between the United States and the countries of South America and Asia is the large middle class, a group of people who are not rich but who provide a good market for semi-luxuries. If anyone doubts the importance of the middle class, let him reflect on the kind of markets that exist in South America or Asia, where the population is divided between a few very wealthy (mostly land owners) and a large number of persons who can afford only a bare subsistence. Incidentally, the large middle class helped create the kind of markets in which low margins are more profitable than high margins because they make possible such large volume. Small margins are one of the distinctive features of the American economy.

5. *The fact that industry in the United States is largely in the hands of men who desire to make money rather than to enjoy wealth.* A principal cause for widespread poverty and economic stagnation in many parts of the world is the fact that the rich are pretty well satisfied with what they have and prefer to enjoy wealth rather than incur the cares and worries of increasing it. As a result, the demand for labor is low and hence the wages of labor are low.

In America, on the other hand, most industry is in the hands of people who are eager to increase their wealth and who are willing to go to considerable trouble to make money. This drive to make money explains the receptivity of the American businessman to innovations, his willingness to scrap equipment before it is worn out, and to use technological research in business. It explains why the

American economy, on the whole, is highly competitive.

In order to keep the productivity of the American economy high, it is important not only to keep the economy highly competitive but to make it more competitive. In order that competition may be stimulated, (1) steps should be taken to encourage competent and experienced executives to start enterprises of their own; (2) educational opportunities for exceptionally able young men should be increased; (3) legal restraints on price-cutting should be avoided (the recent Supreme Court decision limiting the effectiveness of the Miller-Tydings Act is a step forward); and (4) concerns should not be discouraged from striving to grow larger simply because they are already large.

—From an address by SUMNER H. SLICHTER before the School of Banking, University of Wisconsin, Madison, Wisc.

## TACKLING MANAGEMENT'S INTANGIBLES

BUSINESS at Ansul Chemical Company is getting away from the idea of serving under one strong leader. Instead, an "Executive Committee," composed of the president, the vice-presidents of manufacturing and sales, and the treasurer, is experimenting with the philosophy of group management. Their idea is that management should be exercised, not by one individual, but by a group which can question each other's opinions and develop joint decisions.

Consequently, executive action at Ansul avoids a pattern set, rightly or wrongly, because "Well, the boss says so." Rather, ideas and opinions are thrashed out. Decisions are made, at both informal and formal meetings, by a group of men given to constructive catcalls.

This experiment in group leadership is giving rise to some results which delight its president, R. C. Hood. As he points out, the ideal management situation for a top executive is one where operation pressures are discarded as easily as a lizard sheds its skin, and one way to achieve such a Utopia is for top brass to use middle management more than it does. At Ansul the motto is, "Rely on what you have created below." In other words, don't substitute yourself for the men under you; if the job is not satisfactory, advise and counsel, but don't do it yourself. The Committee has been concentrating on this policy, with the result that its time is freer from every-day worries.

Another result of the Committee's work which pleases Hood is the greater opportunity to concentrate on the human aspects of business afforded by group action. "For one thing," he says, "we have more time to note how human relations permeates every phase of operation. And the open discussion keeps our minds tuned to its importance so we are not sidetracked."

The Committee also believes it is clearing up two management plagues in human relations: One, it doesn't waste as much time now worrying about how middle officers perform, because its bookkeeping system gives it a quick tab on performance. Two, its middle management is not as distracted as it is in some other companies by the common worry: "How do I stand with the boss?" The Committee avoids this problem, it feels, through the use, once again, of its management bookkeeping (where figures point out the trend, the error, or the miscalculation under discussion in such an impersonal

way that middle officers feel personalities "have nothing to do with it"), and through its concentrated group effort to contact other plant groups.

Also, owing to this effort of keeping four pairs of eyes and ears peeled instead of one, members say their chance to smell smoke and track it down before the flames burst is greater. Administration soft spots, which facts and successful daily operations may hide, can be uncovered and cured by industry's top brass, Hood stresses, only when the executives have enough time to be tuned always to the human aspects.

"And this is our aim. Eventually, we hope to achieve through group action, and reliance on middle management, a real divorce between top men and daily operations," he reported. "We want to afford to be dispensable in immediate work, and freed to tackle management's intangibles which lie mostly in the human area."

—*Modern Industry*, Vol. 21, No. 8.

## Trek to the Suburbs

THERE HAS BEEN A RUSH to the suburbs during the last decade in virtually all the large standard metropolitan areas of the U. S. (those with 500,000 or more people), according to a recent study by the Conference Board.

The increase over the ten years ranged as high as 150 per cent for the suburbs surrounding San Diego. Areas around Washington, D. C., and San Francisco-Oakland more than doubled. New Orleans' and Seattle's suburbs approached doubling, with increases of 97 and 93 per cent, respectively. In three major areas —Minneapolis-St.Paul, Denver, and Dallas—the number in the outskirts of each city jumped about 75 per cent. Increases of 50 to 60 per cent in outlying sections occurred in eight cities, including Los Angeles and Detroit. In New York-Northeastern New Jersey, the largest metropolitan area, the gain was 23 per cent; while not so large a per cent as in some of the other areas, it represents an increase of about 800,000 inhabitants.

The changing composition of urban development brings with it new market structure. Decentralization of shopping facilities can be expected as a result of a city-to-suburb shift. Small independent stores readily spring up to serve the local trade, and in recent years more and more chains and downtown retailers have opened branch stores in the outlying sections. Thus manufacturers seeking complete coverage of distribution outlets may well have to revise their sales methods.

Manufacturers also are finding a different and sometimes larger market. The effect of the suburban movement on the demand for automobiles, for example, the different type of clothing needed by the suburbanite compared with the "city dweller" is another change in demand arising from this type of population shift. At the same time, additional markets are being created for gardening supplies and for such articles as portable outdoor barbecues which are not used by the city dweller.

NOT-SO-POOR-FARMER: City Americans had long suspected that their country cousins were getting rich. Recently, the Northwestern National Life Insurance Co. told just how rich. Statistically, it showed that the average farmer is 49, owns 195 acres of land, worth—with buildings—$10,000. He has $2,200 worth of implements and vehicles, $2,100 in livestock and poultry, $3,100 in cash or bonds. His debts: $1,950.

—*Pathfinder*

# BUSINESS ON WINGS: THE FACTS ABOUT COMPANY-OWNED PLANES

One of the most striking postwar developments is the acceptance and use of the private plane for business use. Today, according to the Civil Aeronautics Administration, there are about 30,000 planes in use by business organizations. Its figures also indicate that, with seat occupancy averaging 2.6, the passenger mileage is rapidly approaching the billion mark.

It's "catching." Relatively few firms try flying and then give it up. The normal pattern is to try one plane—then add a second or several. In fact, among the respondents to a recent survey, made by mail among members of the Corporation Aircraft Owners Association and other known owner-operators, there are almost as many multiple-plane owners as owners of a single business plane.

The reasons given for owner enthusiasm are extremely varied. In general, the advantages mentioned can be summarized as follows: The company-owned plane is (1) a time saver. (2) It is faster and more flexible than other transportation. (3) It can cover more territory. (4) It can visit branches and salesmen more often. (5) It can reach towns lacking commercial air service. (6) It offers the convenience of going when ready. (7) It adds prestige and gives the reputation of a "wide-awake" company. (8) Salesmen can see more important customers more often. (9) It can bring important customers more frequently. (10) It is ideal for covering a series of nationwide district meetings. (11) It makes more calls per day possible. (12) By flying late afternoons, one can get good hotel rest before making morning calls. (13) With available seats filled, the cost is less than any other form of transportation available. (14) Less time in travel makes more office time available. (15) The plane makes possible speedy delivery of rush orders (such as spare parts, important machines, etc.).

Aren't there any disadvantages to business planes?

There's one, mentioned by many but not considered important when weighed against the advantages. It's weather. As one owner puts it, " . . . there are occasions when airliners are flying in and out of the airport you are stranded in. You then are forced to sit—when you could be traveling—or you desert the plane; either way it's no good." Higher costs are mentioned by some, but almost always it's because the plane is used infrequently. Other disadvantages mentioned by many are lack of ground transportation, quality of food, and poor service at airport restaurants.

In answer to the question, "How many planes does your company own and operate?" 55 per cent said one plane; 29 per cent said two planes; 10 per cent said three planes; 6 per cent said four or more planes. Several respondents have chosen two small or medium-size planes, as against one large one, because "we can then always have one available." About 54 per cent employ commercial pilots, and 46 per cent use an executive or other regular employee.

Three-quarters of the planes operated by or for corporations are owned by the companies, one-eighth by employees, and one-eighth are chartered or leased. Of these planes, approximately half are purchased and operated primarily because of the needs of the sales department, but in most companies they are available for all general management officials and department heads.

What does it cost to operate a plane? The median figure is about 20 cents an airplane mile and 8 cents a passenger

mile—but this figure should be modified in terms of the size of plane and the average load. Also, in plane ownership and operation, there are certain fixed expenses which go on whether the machine is on the ground or in the air: insurance, hangar rent, depreciation, pilot's salary, etc. Generally speaking, plane ownership is not economical (as compared with other forms of transportation) unless it is in the air at least 500 hours a year. At that point the cost curve begins to flatten out. Most operators of single-engined planes will agree with the secretary of Minnesota M & M's executive committee, who says, "You will find that the smaller, particularly the single-engined high-performance type of airplane, will give you travel costs per mile equivalent to auto or commercial transportation."

Respondents were asked to consider the minimum territorial radius which would make company or personally-owned planes more advantageous than rail, auto, or commercial air service. The median average would appear to be from 225 miles upwards. This answer will probably surprise many prospective buyers who figured that unless the average trip was at least 500 miles, a plane would not be particularly advantageous.

—*Sales Management*, September 15, 1951, p. 60:4.

## Defense Production to Take 20 Per Cent of U. S. Output

THE COUNTRY is still engaged in a defense program, not a war program, according to *Industrial Distribution*.

The principal difference between the two is shown in the portion of the nation's gross national product devoted to defense or war production since 1940.

Last year 10 per cent of the total output of goods and services was allocated to defense. This figure increased to between 15 and 20 per cent by the middle of this year and is not expected to go above 20 per cent at the height of the program in 1953.

This compares with 45 per cent of the total output which went to the war effort in 1944, the peak year.

Another comparison can be made in the actual physical output of goods. In 1943 and 1944, two-thirds of the manufactured products turned out were used for military purposes. Last year 5 per cent was required for defense, and in 1953 no more than one-third will be used in the defense program.

## Executive Myths

THERE are certain stereotyped ideas prevalent that greatly misguide the young man looking forward to executive responsibility. One is that "a clean desk" invariably indicates great executive ability. It often means only that papers and problems are reposing in his desk drawers. In many cases it might be better if they were out on top, visibly calling for attention, instead of being concealed.

Another myth is that "details" should never concern the chief executive. Our observation is that some of the most successful executives are so chockful of the details of their business that subordinates marvel as to when, where, and how they acquire them.

Another erroneous idea is that the efficient executive makes quick decisions as a vital necessity of his job. Usually, what appear to be snap decisions are based on mature deliberation in a mind that has already anticipated the problem. As a matter of fact, comparatively few situations require immediate decision. Embryonic executives, believing the contrary, are lured into the habit of fast guessing—a fatal fault.

—*Management Briefs* (Rogers, Slade & Hill) No. 44

# Also Recommended . . .

**WHAT IS THE STATE OF BUSINESS ETHICS?** *Purchasing Magazine* (205 East 42 Street, New York 17, N. Y.), October, 1951. Recent shocking disclosures revealed in a study of purchasing opinion give evidence that sharp practices and dishonesty are far more extensive than is generally known. The answers of purchasing men to questions on many varied phases of our national life, which are summarized in this report, help to establish the facts and clarify some of the problems which must be faced.

**KEY TO FOREIGN INVESTMENT: *A Free Enterprise Climate.*** By H. W. Balgooyen. *The Journal of Commerce* (63 Park Row, New York, N. Y.), October 31, 1951. In these extracts from an address presented at the 38th National Foreign Trade Convention, the author emphasizes that it is our responsibility as individual citizens to insist on full value received for every penny of economic and military aid extended to foreign countries. He believes that we need make no apologies for the profit incentive and that we have no obligation, individually or collectively, to make any investment or export any capital which will not produce compensating benefits for our people.

**FREEDOM UNDER CONTROLS.** By Eric Johnson. *Vital Speeches of The Day* (33 W. 42 Street, New York 18, N. Y.), October 15, 1951. The author states the reasons for his belief that increased production alone is not the answer to inflation and that we need direct controls for a temporay period if we are to become strong. According to Mr. Johnson, the job is one of balance; we must get the various segments of the economy lined up abreast and keep them there if we are to prevent chaos or collapse.

**ELEMENTS OF FORECASTING.** By James W. Redfield. *Harvard Business Review* (Gallatin House, Soldiers Field, Boston 63, Mass.), November, 1951. Mr. Redfield believes that the distrust by many American business men of formalized forecasting is unfortunate and unnecessary. He attempts to show why by discussing what a formal business forecasting program can contribute to management, how it should be carried out, and what its inherent limitations are. He explains in down-to-earth, step-by-step terms how a forecasting program can be organized properly.

**WHEN WORKERS RATE THE BOSS.** By J. C. Rupe. *Personnel Psychology* (5530 Warwick Place, Washington 15, D. C.), Autumn, 1951. This study, based on the Purdue Rating Scale for Administrators and Executives, is concerned with the appraisal of executives' characteristics by subordinates who know them and directly experience their administrative procedures. The data show that the factor which is most important in determining staff morale is responsibility to subordinates and society.

**THE PLEA FOR SMALL BUSINESS.** By Richards C. Osborn. *The Accounting Review* (450 Ahnaip Street, Menasha, Wisc.), October, 1951. The author considers the problem of how the proportion of small businesses making a profit can be increased and economic opportunity maintained. He reaches the conclusion that for the majority of small firms there is little that can be done in the way of aid; however, assistance that is given should take the form of management aids, greater availability of capital funds, and moderate tax adjustments.

**HOW TO READ FASTER AND BETTER.** By Theodore A. Connett. *Factory Management and Maintenance* (330 West 42 Street, New York 18, N. Y.), October, 1951. The author points out the advantages of reading faster and better and gives specific practical methods for testing and improving reading ability. The article includes an actual reading test with a key for scoring speed and comprehension.

**THE ATOM: FOR SMALL BUSINESS, TOO.** By John S. Morgan. *Steel,* (Penton Building, Cleveland 13, Ohio), October 29, 1951. Industrial applications of radioisotopes have developed so rapidly that widespread use of these atomic energy by-products is now practical for small and medium-sized companies. The author describes the procedure to be followed by small companies who want to investigate the possibility of using isotopes.

**PLANTS FIND IT PAYS TO HAVE LOTS OF COMPANY.** *Business Week* (330 West 42 Street, New York 18, N. Y.), September 29, 1951. In a nationwide check of industry, reported in this article, it was found that running tours through plants pays in more ways than one. Many companies have found that, instead of distracting workers and interfering with production, opening their plants to visitors actually causes output to increase.

# Personnel Management

## SOLVING EMPLOYEES' FINANCIAL PROBLEMS: A SURVEY OF COMPANY PRACTICES

TO EXAMINE management practice and opinion on the extent to which employees should be aided in solving and avoiding personal financial problems, a survey questionnaire was distributed recently among 160 companies, representing a cross-section of American industry. A major finding of the survey was that most companies will lend a hand to employees who have financial problems, particularly in emergency situations, and many attempt to steer employees clear of such difficulties by encouraging savings and by offering advice on financial management and budgeting. Some specific findings are as follows:

Loans are made to employees in emergencies by some 40 per cent of companies. A limit of something like $50 is fairly common, though about half do not observe a fixed limit. Almost 10 per cent of companies also extend non-emergency loans for such purposes as purchase of a home.

In most cases, however, employee credit unions serve as the basic source of loans, functioning at some 60 per cent of companies. Though the great majority of personnel executives are very much in favor of these unions as a means of promoting savings by employees and providing them with financial aid, a significant minority of those who submitted comments—about 20 per cent—think they're generally unnecessary or undesirable. Credit unions may best be improved through increased publicity and education among employees, more conservative practice in approval of loan requests, and greater stress on independent, conscientious administration by employees themselves, with only nominal aid from management, several company officials believe.

While the main efforts to encourage savings are made through employee credit unions, about 20 per cent of companies also operate special thrift plans. A number of such plans offer special financial inducements—such as a good buy on company stock, a savings bonus, or an attractively high rate of interest—to get employees to build up savings backlogs. About 60 per cent of companies permit employees to draw on their wages before payday, though many limit the circumstances under which such cash advances will be approved.

Advice is offered by fully 84 per cent of companies. While most don't counsel an employee on personal financial problems unless he requests it, some do so wherever financial difficulties come to their attention. About 35 per cent offer legal advice where necessary, and a little over 20 per cent will arrange legal action for employees on financial matters. Approximately 35 per cent also report that they've made some effort to warn employees against "gyp" credit stores.

When notified by outsiders that an employee is behind in debt payments, about half the companies try to advise and help the employee solve the complaint. Only a few insist that he settle up or be fired. Some say they simply ignore complaints about debts on the theory that they shouldn't serve as a collection agency.

Similarly, an employee who suffers a

salary garnishment is usually counseled in an attempt to work it out with the least legal difficulty and to prevent repetitions in the future. Employees who become involved in repeated garnishments are often fired, however.

Only a very few companies report much of a problem of employees lending money to other employees at high interest rates. Such company "loan sharks" are generally cracked down on when discovered. Fully 28 per cent of the companies noted that they've investigated at some time whether this practice existed among their employees.

—*Employees' Financial Problems* (The Bureau of National Affairs, Inc. Washington, D. C.), August-September, 1951.

# GETTING THE MOST FROM YOUR PERSONNEL RECORDS

**H. G. HENEMAN, JR.**
**Industrial Relations Center**
**University of Minnesota**

TOO MANY personnel reports and records are concerned with employment problems and trouble spots. They deal with accidents, grievances, absenteeism, tardiness, discipline, and other *negative* aspects of the personnel program.

Most employees, on the other hand, are not involved in such personnel actions. They are relatively trouble-free as far as the personnel department is concerned. In its emphasis upon keeping detailed records of trouble situations, most personnel departments do not give enough attention to keeping records that reflect *positive* aspects of a good personnel program. These positive aspects include commendable or superior performance of whatever type by individual employees, and voluntary acts of participation and cooperation. Today's lack of balance in personnel recordkeeping between negative and positive results of the personnel program may lead to an unhealthy personnel viewpoint. Trouble-free employees don't get proportionate attention from the personnel department.

This may be illustrated by a true story: An employee in a paper manufacturing company was being considered for a training program that would ultimately lead to promotion. A routine check was made with the personnel department. "We never heard of him," was the reply of the personnel office. "He *must* be O. K." This is possibly typical of countless other cases where satisfactory employees receive little or no attention because of the inactivity of their personnel records.

Such cases are the result of the disproportionate attention paid to *negative*, trouble-aspect personnel data. While information relating to delinquencies is essential, greater stress on positive records showing *contributions* of the individual employee would appear appropriate. Perhaps such emphasis could be a major contributing factor in the current drive toward according the individual employee more status in our industrial system. It might help him see the relationship between positive effort and reward for his efforts. All too few managements can demonstrate such relationships today. They're too busy putting out fires and keeping *more* negative-type personnel records.

## *Military Leave Policies Well Established, Survey Shows*

AN OVERWHELMING MAJORITY of firms have established complete military leave programs, according to a recent survey conducted by the Commerce and Industry Association of New York.

Responses from 367 companies participating in the survey show that 355 companies have a complete or partial military leave policy. Of these, 236 stated they pay extra compensation to employees who leave for service, while 100 stated they pay no extra compensation.

Extra compensation is paid by 147 firms according to length of service; 81 pay a flat amount; eight pay extra compensation on a basis which varies for salaried and hourly personnel.

## *Bias Costs Nation $30 Billion*

DISCRIMINATION in industry costs at least $30 billion every year, according to Elmo Roper, public opinion analyst.

Says Mr. Roper: "If you take into account the amount of purchasing power which is denied minority groups by low wages. . . . If you add the possible contribution to society by work of the minority groups who could move into high-paying vocations where there are manpower shortages—such as doctors, chemists, engineers—and if you add the cost of crime, delinquency, and social maladjustment, which can be traced directly to discrimination and prejudice, and if, finally, you add the cost of segregations, which are the direct result of discriminatory practices, you will find that this discrimination comes to roughly 30 billions.

"This loss is easily enough to take up the current slack we are feeling in the consumer durables field."

—*Sales Management* 8/15/51

## *Occupation as a Factor in Life Expectancy*

STUDIES in the United States and England show that average length of life varies by occupational classes. Highest in life expectancy are farmers and professional men—clergymen, teachers (both men and women), lawyers, engineers, doctors. Slightly below are business men (proprietors and managers) and white-collar workers. Then, grading down, are skilled workers and unskilled workers; and, with the shortest average life expectancies, miners and granite workers. Artists, writers, actors and musicians have average life spans well below those of professional men.

—*The New You and Heredity* by AMRAM SCHEINFELD (The J. B. Lippincott Co., Philadelphia 5, Penna., 1951. $5.00)

AMA MIDWINTER PERSONNEL CONFERENCE

*The Midwinter Personnel Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, February 18-20, 1952, at the Palmer House, Chicago.*

# HOW TO MAKE YOUR OWN PLANT YOUR BEST LABOR MARKET

With current shortages of technical and managerial skills, you're going to have to begin to pay close attention to the best labor market in the country today—the labor market right in your own plant. Overlooking young promotable people is now a kind of "luxury" no plant operating executive can afford.

If you really know the answers to the following questions, you're in good shape. But if you don't, take warning. Do you know:

1. The names of the men in your plant who are now training themselves for other jobs?
2. What jobs they are training themselves for—and where?
3. What kind of training they are taking—and where?
4. How capable these men are?
5. Whether any other people in the plant are promotable and should be getting training?
6. How to locate these promotional possibilities in the plant?
7. What to do about it when you do locate people who should be getting promotional training?
8. Whose job it is to discover promotional prospects?
9. Whose job it is to do something about these prospects, once discovered?
10. Whether you're having high labor turnover among your young, promotable people? And why?
11. The average age of your present management people? And whether it's a factor in causing younger people to quit?
12. How many promotions you have made in the last year from within the company? And how many of your better jobs you have filled from outside?
13. How much it costs you to hire someone from outside, compared to promoting someone from within?
14. Whether your company has a good reputation in the labor market as a place that offers a real chance to advance?
15. Whether your company has a good reputation among your own employees as a place that offers real opportunities?

Building up a "promotional pool" in the plant is the simplest and cheapest way to develop your own labor market. All that a pool amounts to is an up-to-date, active list of employees who have the potential to fill present or future jobs. But it takes planning and organization in four areas. You must spot promotable people early, help them to develop, keep track of their progress, and put them on the right jobs when they're ready.

*How to Spot Workers for a Promotional Pool.* Even if you don't have merit rating or testing, you can still do a good job of identifying promotable employees because the heart of any promotion-from-within program is the foreman or department head. If you have his cooperation, any approach will work better—even if you simply sit down with him from time to time and chat about the people who work under him.

However, selling foremen and department heads on the need for a promotional pool is only the first step. The second step—equally important—is to get them thinking about the company as a whole and about company needs. This generally means giving each man regular analyses of current job openings plus forecasts of future openings.

Finally, you won't get far in spotting promotional people if you don't have some one person as the coordinator or "spark plug" to keep interest stirred up, report progress, and worry when things aren't going well.

*How to Help Workers to Develop.* There are two ways to help employees to develop: job experience and education. Planned job experience increases the employee's value in that he becomes a more

flexible worker and can be used in more than one spot; management also gets a chance to observe his performance on a broader base.

Supplementary schooling at night in local high schools and colleges is another excellent way to speed up the promotable worker's development. The only incentives needed to interest employees in furthering their education are assurance they will be considered for promotion and some help in paying the cost of the courses. A simple tuition-refund plan can take care of the financial problem. Some companies pay the full cost of training courses, but most pay only half.

*How to Keep Track of a Worker's Growth.* In larger plants, there's no way of avoiding a certain amount of red tape in keeping track of employees in the promotional pool. But in the smaller plant, it's quite possible to keep track of promising employees on a sheet or two of paper, or in a notebook.

The one piece of paper work that seems most important is some kind of formal request for promotion or transfer. If such a form has to be processed through the coordinator of the promotional pool, it assures management that the best qualified candidates will all be reviewed before action is taken.

The best rule for paper work, regardless of the form it takes, is this: Keep it simple.

*How to Place Promotable Workers.* In a sense, the best way to place promising workers where they will do themselves and the company the most good is through careful hiring, which can be the means of deliberately funneling into a company a certain number of young people who show real promise.

The more common problem, however, is how to match up the requirements of a job that opens up with the skills and abilities of the people in the promotional pool. The smaller plant can make a quick study of a relatively short list of names and group discussion of the two or three obviously best candidates will usually settle the problem. Some larger companies use special devices, such as business machines or manual card sorting, to narrow down the number of candidates. In the long run, however, your promotional pool will succeed or fail not on the basis of the specific system you use but on the basis of your judgment and sincerity.

—LAWRENCE BETHEL and LEON L. LERNER. *Factory Management and Maintenance,* Vol. 109, No. 8, p. 90:4.

## Few Informal Grievances Reach Arbitration, Study Shows

WHAT PERCENTAGE of grievance settlements are made at the first step, and what percentage are made without formal presentation or at the foreman level? This question was recently put to five large companies who reported as follows: Co. 1 said that between 85 per cent and 90 per cent are settled at the foreman level before they become formal grievances. The remainder, or 10 per cent, go through the first two stages, with very few reaching arbitration. In Co. 2, 85 per cent are settled by foremen. In Co. 3, of 10 grievances, three may reach the second step, which is the policy formalizing group. The vast number of informal grievances are settled at the company level. Co. 4 reported 90 per cent are settled without formalization, and some 10 to 15 per cent of the remainder are settled at the first level, which is the group chief. Co. 5 reported at least 95 per cent are settled at the foreman level.

—*Brevities in Labor News* (The Employers' Association of Chicago) 9/1/51

# TEACHING FOREMEN THE ECONOMIC FACTS OF LIFE

IN REPUBLIC STEEL'S Canton, Ohio plant, when a disgruntled worker was told to hurry, he snapped back: "Why should I knock myself out for Republic? They make $75 out of every billet of steel and I get nothing." His foreman, Chris Cutropia, who was both forewarned and forearmed, took the worker aside, and convinced the griper that the company would be lucky to make 75¢ a billet. Reporting the incident to his superiors, Foreman Cutropia added: "Three months ago I wouldn't have been able to say anything."

Like 3,048 other foremen and supervisors, Cutropia not only knows a lot more about costs than he did a few months ago; he also knows a lot more about such varied matters as stock investments, the U. S. banking system, and how to read a balance sheet. Reason: he and his fellow foremen have been going to school.

The school grew out of Republic Steel President Charles M. White's belief that his workers' misconceptions about such matters as profits were a prime source of labor-management conflict. Last year he got the University of Chicago's Industrial Relations Center to make some questionnaire tests which verified his suspicions: of 650 foremen tested, 45 believed that $100 million is a billion, 26 per cent believed that everyone gets the same Social Security pension when he reaches 65, 39 per cent thought that "capital is not productive," and 23½ per cent believed that companies try to "hide profits" by boosting depreciation charges.

The university drew up 15 elementary lectures on economics, and trained a crew of 34 Republic supervisors to deliver them. When White first tried out the course on 250 supervisors at the Youngstown plant, the men were cynical, expecting "some more of that company hooey." When they learned that they were getting easily understood facts—and a minimum of hooey—about matters which had long baffled them, their interest rose until men were betting on who would score highest in the tests. White quickly extended the lectures to foremen in 26 plants.

Republic's teachers geared the lectures to a 10th-grade level and used plenty of visual aids. Actual pies were cut up to show how a company's sales dollar is divided into wages, costs, and profit; additional pies were pulled from drawers to show that more production is required to produce more shares for labor and capital.

After the lectures, new tests showed that the number who believed that "capital is not productive" dropped from 39 per cent to 13.4 per cent; those who believed in "hidden profits" dropped from 23½ per cent to 12 per cent; only 3 per cent still believed everyone got the same Social Security. On the tests, the foremen got better scores than management itself.

—*Time*, October 15, 1951, p. 112:2.

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TODAY there are only about 2,000 full-time industrial physicians in the nation, 13,133 industrial nurses (as compared to 300 prior to World War II), and 650 industrial hygiene engineers. To meet the increased needs of defense mobilization due to increased industrial activity and larger numbers of women, older, and disabled workers entering the labor force, the Council on Industrial Medicine of the American Medical Association has estimated that we will need 1,600 more industrial physicians, 5,320 more industrial nurses, and 400 more industrial hygiene engineers.

—HOWARD A. RUSK in *Industrial Health Monthly* 11/51

# JOB SATISFACTION IN THE FACTORY—A SURVEY OF EMPLOYEE ATTITUDES

A NOTABLE TREND in industrial practice has been the sub-division of operations and a consequent increase in the amount of repetitive work. There is, accordingly, a fairly widespread belief that many industrial operations contain little that is inherently interesting. To determine whether this belief is true, an attitude survey of 967 production workers engaged in a variety of tasks in two mass production factories and six metal rolling mills was made recently. Here are some of the survey findings:

The study showed first that from 59 to 75 per cent of the men interviewed are "very satisfied" or "satisfied" with the operations they performed.

However, the proportion of men who said the work was interesting differed in the two kinds of factories. The type and degree of interest was more varied and intense in the rolling mills than in the motor car or mass production factories. In the latter, more than one-third of the men complained of boredom, but in the rolling mills the proportion was much less (8 per cent).

The most common source of interest in the rolling mills was variety, attributed mainly to the different materials which the operators fed into the machines and the processes to which the materials were subjected. Many men (36 per cent) mentioned in some detail the technical part of the operation which interested them or the effect it had on them. Typical comments were: "I have been on this job for a long time and am interested in the experiments of the metallurgists;" "I have myself introduced a suggestion for marking the billets to identify them;" or, "It's fascinating the way the metal is cut."

In the automobile factories, where many of the men worked on conveyor belts on simple repetition work with a short time cycle, variety was mentioned less frequently as a source of interest and in rather different terms. Men spoke favorably of jobs with longer time cycles, or of those on which they were required to do more than one operation. Similarly, mention of interest tended to be more general and less specific than in the rolling mills, and some remarked that the work was interesting because the time passed quickly, or that they were kept alert and their minds occupied.

Satisfaction with the operation was often partly dependent on comparisons with other workers and jobs, and with previous experience. These provided workers with subjective standards for judging the skill and responsibility in their work. If a job was skilled and carried with it a sense of status and security (often a "trade"), the comparison was favorable. Conversely, skilled craftsmen employed on mass production processes were usually very dissatisfied.

Many men liked their work because it was simple, straightforward, and carried no responsibility or because they were "used to it." Others, though they disliked the job, preferred to cling to it rather than change to other and possibly more interesting jobs. Their desire for variety conflicted with their reluctance to break away from familiar jobs and workmates. In general, an intact working group together with a certain amount of variety in the operational cycle were important determinants of satisfaction with work.

There was a widespread feeling among workers that a job should have significance beyond the satisfying of immediate needs. They liked to feel that it was an essential

part of factory work and that it was important to the country and to the consumer. Prestige and status both inside and outside the factory were closely linked with this feeling.

Physical conditions of work were among the main sources of both satisfaction and discontent. It was noticeable that workers showed a greater awareness of the unfavorable aspects, tending to accept comfortable conditions as a matter of course. The more frequent causes of dissatisfaction were dirty and heavy work, unpleasant workshop surroundings, and adverse technical conditions which interrupted the steady flow of work.

—J. WALKER and R. MARRIOTT. *Occupational Psychology* (National Institute of Industrial Psychology, 74 Welbeck Street, London, W. 1), July, 1951, p. 181:11.

## GETTING READY TO REPORT

MOST LARGE companies have the foundation laid for the annual report to employees, and many of them have the building half up. Since plans are also being made in medium-sized companies and smaller companies, it's a good time to look at the employee annual report in the light of changing conditions and see what it should do. Here are some of the methods of annual reporting that will be used by companies when annual report time comes around:

*Report through supervisors.* Company A, on the strength of trial and error, feels it will use the supervisory route again. It works best, causes the least difficulty. There are 70 supervisors involved; the setting will be a management dinner, where the president of the company and a half dozen department heads will be members of a panel which will present the report and then be available for questions. A summary of the report will appear in the small (16-page) employee publication and will follow the supervisory meeting by about two weeks. There is no meeting of employees scheduled.

*Direct report to employees.* Company B has 450 employees in two plants in the same general area. Management has arranged for two meetings on successive evenings in plant cafeterias to be conducted on employee time. Families are to be invited, refreshments served, and there will possibly be dancing. The presentation of the financial report, put into simple terms with a few visual aids, will be made by the president and will not take long. The company believes it will also produce a small folder—about four pages—highlighting the report, and a monthly newsletter mailed to the home will carry some comment. Questioned about informing supervision in advance, the company said highlights will be given in a supervisors' meeting a day or two ahead, but the meat will be held for the big meeting.

*Special printed report.* Company C, with several small plant locations, finds an employee group meeting plan cumbersome and believes it wouldn't work too well. The compromise is a printed report, colorful and animated, for its 2000-odd workers. The report will use semi-comic characters to explain the disposition of the sales dollar. The annual statement will be presented in terms of the individual employee, inviting the reader to imagine that his job was his own business for the year past.

*Insert in the employee publication.* For companies with employee magazines or newspapers, these journals are sound,

logical outlets for the annual report for employees. Some companies in the past have devoted entire issues to the report, others set aside four or eight pages for a highlight. Company D uses an eight-page insert for the report, which is a bulletin in itself; it may either be bound into the center fold of the employee publication or used as a separate mailing piece.

How many companies make the stockholder report available to employees? It is estimated that 65 per cent to 70 per cent arrange it so that employees will receive this report. The majority of companies make the stockholder report available to employees *on request only*—perhaps through the personnel office, through the supervisor, or by business reply card enclosed with the employee publication or employee annual report.

In drawing up the report, watch the accountant's language. Too many companies use technical mumbo-jumbo that baffles and often exasperates employees. If the employee doesn't understand it, count on it, he isn't going to read it.

—*The Score* (Newcomb & Sammons, Chicago, Ill.), October 15, 1951, p. 3:2.

## Ten Rules for Sizing Up People

IN their latest volume,* Eleanor Laird and Dr. Donald Laird present some criteria which can be used by any employer in judging people. As beginning steps, the Lairds suggest that the employer observe the following rules:

1. Know your prejudices about people and discount them.
2. Observe details and avoid being misled by general impressions.
3. Observe steadily and change estimates as often as necessary. Give up the notion that you can size up on sight. Make sizing up continuous, not something that stops after the first meeting.
4. Study past behavior, not bones or complexion.
5. Size up with regard to primary qualities, not superficial characteristics. Get down to the bedrock of human nature.
6. Look for characteristics, do not judge people as "good" or "bad."
7. Use reasonable standards, do not be "hard" or "easy."
8. Get the other person to do most of the talking—and on topics that reveal his characteristics.
9. Estimate how much he has of each characteristic.
10. Know why you rate him low, average, or high. If you can't put it into words, the impression usually is biased or meaningless.

—*Advertising Age* 9/10/51

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* *Sizing Up People.* McGraw-Hill Book Company, New York, 1951. 270 pages. $3.75.

## Labor Gets Its Story Across

LABOR UNIONS in the United States miss few bets in getting their story across in print to their members and the opinion makers and law makers of the country. A recent estimate gives the circulation of the labor press as between 20 and 30 million. Labor unions support something like 800 newspapers.

*Steel Labor*, published by the United Steelworkers of America (CIO), is a good example of what labor is doing to win friends and influence people. It does just what it was created for, reflects the thinking of the USW hierarchy on matters of wages, politics, economics, and working conditions.

The job of producing and printing *Steel Labor* is "big business." Current circulation is approximately 1,040,000. Cost of production runs to about $260,000 per

year. The paper is printed in five editions: the "regular" or Eastern, the West Coast, the Middle West, the Southern, and the Canadian.

While so-called "policy" copy is the same in each edition, the various editions carry from four to six, sometimes eight, pages of sectional news. The Canadian edition carries 10 pages of sectional news, including 1 to 1½ pages in French.

—*The Iron Age* 10/4/51

## Also Recommended • • •

**UTILIZATION OF OLDER MANPOWER.** By Harland Fox. *Harvard Business Review* (Gallatin House, Soldiers Field, Boston 63, Mass.), November, 1951. The author explores the problem of work opportunities for those over 45 from the specific standpoint of private industry, presents a detailed picture of business practices in the employment of older workers, and cites studies comparing the relative efficiency of older and younger employees. There is evidence that the prime obstacle to the employment of those over 65 is the growth of private pension plans.

**CAREER SCHOOL FOR VETERANS.** *Trends* (14 West 49 Street, New York 20, N. Y.), October, 1951. A large watch company has established a school which has successfully worked out a formula for vocational rehabilitation and has opened new opportunities for handicapped war veterans in the field of watchmaking. Eighty-five per cent of those who have completed the training program have found gainful occupation in this field, many of these forming partnerships with classmates to establish their own businesses.

**GAINING EMPLOYEE COOPERATION.** By Elizabeth Fagg. *Personnel Journal* (Swarthmore, Pa.), September, 1951. This article describes a large chain's experience in following the advice of a consulting psychologist, who recommended constructive appeals to employee intelligence and self-respect in order to achieve neatness of appearance on the part of 1,200 female employees. The experiment described shows that where "rules" and "orders" failed, encouragement and the rewards of glory and prestige succeeded.

**VALIDITY OF APTITUDE TESTS FOR PREDICTING TRAINABILITY OF WORKERS.** By Edwin E. Ghiselli and Clarence W. Brown. *Personnel Psychology* (5530 Warwick Place, Washington 15, D.C.), Autumn, 1951. On the basis of the data summarized in this article, the authors reach the conclusion that with a judicious selection of aptitude tests, trainability in most occupations can be predicted reasonably well. The article includes a brief description of the types of tests available and statistical tables summarizing the validity of various tests for various occupations.

**PATTERN BARGAINING AND THE UNITED STEEL WORKERS.** By George Seltzer. *The Journal of Political Economy* (5730 Ellis Avenue, Chicago 37, Ill.), August, 1951. In appraising the effects of pattern bargaining on the steel industry, the author shows that the record does not support the charges that the "key bargain" is a form of "labor monopoly" which has caused serious economic dislocation. He points out that the anticipated effects on marginal firms have been avoided by the willingness of the union to modify and adapt its policies to fit special circumstances.

**ARE YOU REALLY AT THE BOTTOM OF THE BARREL?** By Hugh M. and Robert W. Pease. *American Machinist* (330 West 42 Street, New York 18, N. Y.), November 12, 1951. The authors discuss a method used by a large aircraft company for solving the current shortages of skilled personnel in tool design by training relatively unskilled help. It was found that a "good mind's eye," i.e., an ability to perceive form and space relationships, was the key requirement, and a training program for selecting people with this ability was established.

**TRAINING WORKERS TO KEEP PACE WITH INCREASED PRODUCTION.** *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), October, 1951. Here is an actual example of how one company, whose defense contracts will require an increase in its work force of 100 per cent, is making use of apprenticeship and other forms of industrial training to solve its manpower problem. The article describes the organization of the training staff, methods of job training, the use of handicapped workers, and further aspects of the program which are applicable to other plants and other industries.

## IT'S TIME FOR QUALITY CONTROL

THOUGH EVERY factory worthy of the name has a regular program of inspection at every stage of the manufacturing process, quality control, as a managerial problem, receives very little serious attention from the office executive. The reason for this difference in approach between the office and the shop probably lies in the fact that the cost of manufacturing errors is more easily detected than mistakes in the office, which are usually hidden in the waste basket or evaporated in a momentary sense of irritation. Nevertheless, these mistakes represent a real cost of doing business. In most offices, a study will show not only that time can be taken to improve the situation, but that it ought to be.

Every well-informed production man now knows the use of sampling and control limits in inspection. Statistical quality control is today an established technique of industry. However, just as one need know nothing about thermodynamics to drive an automobile, so one needs to know little about statistics to use the techniques of statistical quality control. The problem lies in knowing where to use the techniques, how to interpret the results, and how to modify the program to meet changing conditions. The answers to these problems are better given by the practical working manager than by the theoretical mathematician.

The general outlines of a sound quality control program in the office, ought to follow the accepted principles of scientific management: (1) Get the facts. (2) Establish standards. (3) Establish controls for maintaining the standards. (4) Put the controls into effect.

1. *Get the Facts.* The first information to establish is the number and kind of errors which are currently committed. A definite time period, never shorter than a week, must be set for the fact-finding survey. During this period, every piece of work should be examined for errors and each error described. The description must include not only the appearance of the error itself, but its probable cause, its effect, and an evaluation of the time required to rectify it. Thereafter, a tally must be kept of the number of recurrences of the error during the survey period.

The end of the survey period will put the manager in possession of a complete description of practically every error that is commonly committed in his office and a series of "samples" for each type of error. Each sample should consist of the total occurrences per day, the average for the total period, and the maximum and minimum number of daily commissions.

2. *Establish Standards.* The first step in this part of the program is to examine critically the descriptions which have been accumulated. Many errors can be eliminated and hence need not be controlled. The second step in establishing standards is to decide which errors should be made the subject of the quality control campaign. The third step is to establish quality levels and control limits for each type of error. A trained statistician may be employed for this task, or the manager who is not afraid of new ideas may glean enough from reading any of the several available texts to do the work himself. In either event, the end result will be an average number of occurrences of the

error and the maximum and minimum number of occurrences per day that should be expected if normal conditions obtain.

3. *Establish Controls for Maintaining the Standards.* At this point, we are ready to publicize the program. Every employee affected should be provided with a copy of the descriptions of the errors. He should also be instructed in the meaning of the average and the minimum and maximum control points.

4. *Put the Controls into Effect.* It is now time to set up control charts for each type of error and begin to take samples. Under this procedure, all the work of an operator for the first day is examined and the number of errors counted. Contrary to the procedure used during the survey period, it is very important that the employee involved know what is going on. She should know what her quality score is and how she stands for each error on the quality control charts. No employee should be criticized for making more than the average number of errors or too much praised for making less, as long as her score is within the control limits. Very few people can be expected to be exactly average in anything.

On the whole, though some benefits may be obtained from a temporary campaign, best results will be secured if the above program can become second nature to the office. When the periodic sampling of work and plotting on control charts are as much a part of the office life as is the cleaning of the desk at night or receiving the weekly pay checks, the cost of errors will be at a minimum.

—GEORGE D. WILKINSON. *Office Executive*, October, 1951, p. 7:4.

## *Making Better Use of Clerical Staffs*

FACED with the problem of getting out more work without additional help, office managers are learning to utilize their clerical staffs more efficiently.

The secretaries to executives in a mail order firm were spending as much as 25 per cent of their time keeping the correspondence files in order. Centralization of the office files was not considered practical because each executive required his own file. Reviewing the individual filing systems, the office manager found that a few simple changes would make them uniform. A file clerk was assigned to make a quick round of the offices to do all the filing requested by the secretaries. The secretaries now handle all the dictation without working overtime, and there's no need for additional stenographers.

In another case, the office manager realized that not all typing jobs require the same skill. He found that a speed of approximately 25 words per minute was sufficient for statistical work, 30 words per minute was adequate for machine dictation, 45 words per minute for stencil cutting, and 55 words per minute for volume copy. He then reassigned the slow typists to the jobs requiring less skill and the fast typists to the more difficult work. Everybody's happier as a result, and typing output has nearly doubled.

—*Supervisor's News Service* (Bureau of Business Practice, New London, Conn.) 10/17/51

DO YOU USE travel cards instead of writing individual purchase requisitions? One company uses a card for each item, and it travels back and forth between the stock room and the purchasing department. It eliminates the necessity of writing individual requisitions and acts as a purchase record and a medium for preparing the purchase order.

—*Office Executive* 9/51

# GET MORE MILEAGE FROM YOUR BUSINESS MACHINES

NINE OUT OF 10 firms wait until a machine misfires, send out an SOS, and then watch the undone work pile up and production costs skyrocket. Experienced factory maintenance men report that as a rule top-level office management doesn't know (1) how many machines it has; (2) how old they are; (3) where they are. Result: a sloppy service system, or no repair plan at all.

A centralized, visible business machine card file—with thumbnail records that tell at a glance the age, type, features, and location of each machine in the organization—is the first step toward reducing repair costs. The visible file lets management know whether machines are properly utilized, reveals the date of the last service inspection, and shows how much it's costing to keep a particular machine in operation.

Once a visible system has been established, there are certain killers to guard against:

*Dirt.* Forty per cent of service calls are made because, through carelessness, dust and erasure particles drop into vital bearings and gears. Machines are used eight hours a day. Why not keep them protected the idle sixteen?

*Improperly trained operators.* An efficient operator has a direct influence on the longevity of a machine. One company makes 500 to 700 service calls a day in New York City, ten to 12 per cent of which are necessary because of faulty or careless operation of equipment.

Many business machine manufacturers publish booklets on machine care and distribute them for the asking. These booklets explain various interesting facts: For example, a typical typist throws the carriage 1,100 times a day, lifts the equivalent of 10 tons during an eight-hour shift; if the machine isn't anchored securely at the desk, her errors increase.

These simple facts may not seem important enough to make or break your business, but when figured dollar-wise, results are startling. A recent survey shows that one company spends 8 cents for each line typed—because its production is slowed by waste of materials, poor operator skills, and obsolete equipment.

*No systematic service-repair.* Regular inspections reduce costly breakdowns. Most reputable business machine companies offer a type of "insurance" to the customer when he contracts for equipment. For each new machine bought you may, if you wish, pay a small additional fee which brings a factory repairman to your office every four months and keeps him available for emergency calls between regular inspections. Management sometimes forgets that this insurance can be charged off as operating expense on tax returns. Tax laws provide for maintenance and depreciation.

*Senility.* Modern electric typewriters cost more initially than manual machines, but an electric model turns out work 25 per cent faster than standard typewriters; thus continued use of old equipment does not necessarily mean an economy. From the Bureau of Internal Revenue files, here are the estimated life spans of 11 business machines:

| | Expected Life |
|---|---|
| Adding Machine | 10 |
| Calculator | 10 |
| Typewriter | 5 |
| Addressing & Mailing | 15 |
| Dictating | 6 |
| Bookkeeping | 8 |
| Numbering | 10 |
| Time Clock | 15 |
| Check Writer | 8 |
| Check Perforator | 10 |
| Billing | 8 |

Poor quality work is all that can be expected from machines ready for retirement. A systematic replacement plan

(based on the central file) will reveal equipment which is ready for retirement.

*Supplies.* If you are using cheap, linty paper in adding machines, get ready for a slowed-down machine and excessive operator fatigue.

If a secretary is required to make a good many carbon copies, give her the proper tools: onionskin paper, carbon ribbon, carbon paper that works, and type faces that aren't worn flat with old age.

Preventive medicine is nothing more than conservation and common sense. When in doubt, ask the experts. Many equipment companies are willing to make free surveys of office clerical systems and give detailed suggestions on how to cut operating costs.

—*Sales Management*, October 1, 1951, p. 42:2.

## EASING STENO-TYPIST SHORTAGES

A PROBLEM THAT business and government have in common is getting enough competent stenographers and typists to avoid the situation where a $10,000-a-year executive cools his heels because somebody else has a $2,500-a-year employee tied up. Hiring a good stenographer has been tough for a long time. The Federal Government's central personnel agency, the U. S. Civil Service Commission, has pointed out to government executives, impatient about the stenographer shortage, that the shortage is not confined to the government service —nor to this country.

Last year, the commission reported the results of a survey made by a private firm which revealed that business colleges were receiving an average of nine employment calls for each girl graduate. With stenographers still as hard to find as ever, or perhaps even harder, the commission is now trying to bring about a more effective use of stenographers and typists already on the job.

Details of a plan for this purpose are contained in a recently published pamphlet, *How to Conserve Stenographic and Typing Skills,** which is in general use in government agencies. Though prepared for government use, it is practical for supervisors in any office employing a considerable number of stenographers and typists. The pamphlet presents, in concise form, suggestions on how to: (1) simplify methods—use of form letters, form paragraphs, window envelopes, and longhand for informal notes; (2) conserve time—write short letters, use dictating machines and duplicating machines; (3) use employees to best advantage—assign slow work to slow typists and use messengers or clerks to handle certain part-time duties of stenographers and typists; (4) dictate effectively—have complete information at hand and prevent unnecessary interruptions; (5) cooperate with other offices—arrange for pooling stenographic and typing services and make two-way arrangements with other supervisors to handle extra work during peak loads; (6) conserve energy—place supplies and equipment within easy reach and adjust chairs and typewriter tables for most comfortable and efficient use.

Copies of *How to Conserve Stenographic and Typing Skills* are available from the Superintendent of Documents, Government Printing Office, Washington 25, D. C., for five cents each.

* From which the two accompanying charts are reproduced.

—RUSSELL LE FEVRE. *The Office*, October, 1951, p. 117:3.

## CHECK LIST FOR DICTATORS

| | | Yes | No |
|---|---|---|---|
| 1. | Have I a definite period for dictating each day? | ☐ | ☐ |
| 2. | Am I allowing the stenographer ample time for transcription before the mail closes? | ☐ | ☐ |
| 3. | Am I making every effort to prevent unnecessary interruptions during the dictation period? | ☐ | ☐ |
| 4. | Do I have available all the information that I will require during the dictation period? | ☐ | ☐ |
| 5. | Am I concentrating during my dictation so that I do not waste my time and that of the stenographer? | ☐ | ☐ |
| 6. | Do I indicate clearly whether the material dictated is a memorandum, letter, report, or other type of communication? | ☐ | ☐ |
| 7. | Do I indicate how many copies I need before the material is typed? | ☐ | ☐ |
| 8. | Do I indicate which letters are to be rushed? | ☐ | ☐ |
| 9. | Do I ask for a rough draft when I anticipate changes? | ☐ | ☐ |
| 10. | Do I make all changes in a rough draft the first time so that the letter must be copied only once? | ☐ | ☐ |
| 11. | Do I spell unusual words and proper names and clearly enunciate figures? | ☐ | ☐ |
| 12. | Do I enunciate clearly and speak directly to the stenographer? | ☐ | ☐ |
| 13. | Am I regulating my dictation speed to the stenographer's writing speed? | ☐ | ☐ |
| 14. | Am I giving the stenographer an opportunity to ask questions on points which are not clear to her? | ☐ | ☐ |
| 15. | Am I making myself responsible for grammar and sentence structure? | ☐ | ☐ |
| 16. | Do I compliment my stenographer when she gets out a nice-looking letter or report? | ☐ | ☐ |
| 17. | Do I take the blame myself for errors that are my fault? | ☐ | ☐ |
| 18. | Do I indicate minor corrections in such a way that the material does not need to be retyped? | ☐ | ☐ |
| 19. | Do I make corrections in longhand on informal communications? | ☐ | ☐ |
| 20. | Do I avoid keeping my stenographer after office hours to do work that can be done just as well the next day? | ☐ | ☐ |

## CHECK LIST FOR TRANSCRIPTION SUPERVISORS

| | | Yes | No |
|---|---|---|---|
| 1. | Have I checked to see what percentage of time stenographers and typists are devoting to stenographic and typing work? | ☐ | ☐ |
| 2. | Do I assign routine duties not calling for skill in stenography or typing to messengers or clerks? | ☐ | ☐ |
| 3. | Do I assign copy work to typists rather than stenographers? | ☐ | ☐ |
| 4. | Am I asking for as few carbon copies as possible? | ☐ | ☐ |
| 5. | Do I have my typists prepare a master or a stencil rather than retype many copies? | ☐ | ☐ |
| 6. | Have I devised standard paragraphs and form letters whenever I could? | ☐ | ☐ |
| 7. | Do I write office messages in longhand or use the telephone rather than dictate memoranda? | ☐ | ☐ |
| 8. | Have I reported surplus stenographers and typists or those with more skills than my work requires? | ☐ | ☐ |
| 9. | Do I assign work from other units to my stenographers and typists during slack periods? | ☐ | ☐ |
| 10. | Am I giving extra help and training to stenographers and typists whose performance is below the standard required on the job? | ☐ | ☐ |
| 11. | Does each stenographer and typist have definite instructions about what she is to do and how she is to do it? | ☐ | ☐ |
| 12. | Does each stenographer and typist understand why her work is important? | ☐ | ☐ |
| 13. | Have I explained to each stenographer and typist what her responsibilities are and to whom she is responsible? | ☐ | ☐ |
| 14. | Does each stenographer and typist know where she can go for help? | ☐ | ☐ |
| 15. | Have I set standards of quality no higher than the work requires? | ☐ | ☐ |
| 16. | Have I reached an agreement with my stenographers and typists on the standards of quantity and quality desired? | ☐ | ☐ |
| 17. | Do I offer constructive criticism to enable them to overcome their faults? | ☐ | ☐ |
| 18. | Do I help them to iron out difficulties and dissatisfactions with their work? | ☐ | ☐ |
| 19. | Have I checked to see that desks, equipment, and materials are placed in the best possible positions? | ☐ | ☐ |
| 20. | Do I supply all available equipment to make the work easier? | ☐ | ☐ |

## WHY FILE SO MUCH SO LONG?

WHY RETAIN records? Very simply, your records are kept to yield information in the case of a law suit and to serve as history. The length of retention is governed by law (for contracts, taxes, social security, etc.) and by usage—your requests for old files. It is in the latter area, however, that there is a rich lode of "pay dirt."

In a 1951 study, the National Stationery and Office Equipment Association showed that the annual total cost of operating a typical file, using a four-drawer letter file (and assuming that one clerk operates twelve cabinets) is $217.33. Overhead charges for such things as management, maintenance, operating space, miscellaneous equipment, and taxes are omitted from this estimate, so it is quite conservative.

Does this help to convince you that the job of office housekeeping is expensive and that a dollar-saving records program may be worthwhile?

Where do you start? To quote Don Quixote, "Make it thy business to know thyself, which is the most difficult lesson in the world." An inventory of your records is the only safe and accurate basis on which to build a records disposal plan. The inventory cards or sheets should describe the record specifically: its number, if it is a form, the volume, the number of years active and inactive, the department of origin, the use, the number of copies made—all the pertinent details. I prefer working with cards because of their flexibility in future processing.

From this working tool, you can indicate the classification of your records according to the National Fire Protection Association standard of "vital," "important," "useful," and "non-essential." However, there are extremely few instances where you can adopt such a schedule whole-hog. This is one point at which sauce for the goose is not sauce for the gander. Your own usage and needs must guide you in how long your company really needs a record.

As an offshoot and dividend from this inventory, you will discover, uncover, and recover many things about your business that were unknown previously. You will find duplications of effort that should amaze you—blatant flaws in procedures that can be changed to reduce costs.

Generally, the "Jonah" in any record-reduction program is the massive accumulation known as correspondence. To cope with this problem, I have a rule of thumb that has as its basis the following vaguely outlined formula: The bigger and more complex the product, the more it is necessary to refer to correspondence. Thus, if you manufacture toothpicks, you have a "closed" sale, without complications or rebuttal, but if you manufacture locomotives or machine tools, there can be many essential factors entered on correspondence between the time of starting negotiations, the time of delivery, and the time of obsolescence. Elasticity is an individual company necessity.

There is another procedure that can effectively select which correspondence should be destroyed. I call it the "block plan." It is very simple. In the upper righthand corner of each file copy sheet, a series of four blocks is printed vertically with "retain 1 yr.," "2 yrs.," "5 yrs.," or "Permanently" in front of each. The department name is printed above, and space for follow-up is provided.

In this plan, before a letter is sent to the file, the proper retention date is checked by the dictator to indicate how long the letter is to be retained. All material must have the retention period

checked or marked, or it is returned by the Records Bureau.

Correspondence checked for one year in 1951 would be kept until the end of 1952; two-year material, until 1953; five years, until 1956. The file copies would be placed in their proper folders regardless of retention date, and at the end of 1952 the clerks would check through, pull out all 1951 one-year letters, and destroy them. At the end of 1953, all 1951 two-year letters would be destroyed. The 1951 folder, now down to 15 to 20 per cent of its original volume, would remain static until 1956 and then be reviewed by the dictator for additional retention or final disposal.

This procedure works equally well in any type of filing system, but it is particularly useful in technical, executive, and planning files. It eliminates bulk destruction, but pares down volume automatically. The chore of re-reading all letters to appraise them is removed. But, most important, it places the responsibility for retaining valuable papers on the persons who are best able to judge their importance.

—LETA J. STROBEN. *Office Management and Equipment*, September, 1951, p. 34:6.

## How to Talk Interestingly on Paper

NO LETTER FILLED with stereotyped, hackneyed words and phrases which have lost their meaning and punch through over-use can be human, friendly, and persuasive. Yet, about 85 per cent of all business letters are thus robbed of all individuality, sincerity, and effectiveness. For example, haven't you seen some of your own company letters which sound about as deadly as this?

We beg to advise you, and wish to state
That yours has arrived of recent date.
We have it before us, its contents noted;
Herewith enclosed are the prices we quoted.
Attached you will find, as per your request,
The forms you wanted, and we would suggest
Regarding the matter and due to the fact
That up to this moment your decisions we've lacked,
We hope that you will not delay it unduly,
And we beg to remain, yours very truly.

Ridiculous, isn't it? So are the vocabulary exhibitionists who delight in using unnecessarily long, "high-hat" words that only a college professor would appreciate. And many a letter is cast aside unanswered, simply because the writer indulged in unfamiliar trade terms which he felt should be understood. In his immortal Gettysburg Address, Lincoln used 194 words of one syllable, 52 of two syllables, and only 22 that contained more than two—conclusive proof that short, plain words can be the most dynamic.

—*Letter Slants (R. H. Morris Associates*, Newtown, Conn.) Vol. 3, No. 3

## Minimizing Office Fire Damage

ALL OFFICES can take some precautionary hints from the experience of the Marine Trust Co., Buffalo, one of whose offices burned recently. The bank reported that damage was minimized in files and ledger trays which had the adjustable compressor plates drawn up tight against the filed material. All files should be locked at the first sign of fire since the collapse of a floor allows unlocked files to open and spill the contents. Wastebaskets can be used to collect papers from desk tops and quickly removed from the premises or into fire-resistant files. It was also recommended that all ink used in the office be waterproof. The Marine Trust Co. used an electric clothes ironer to dry its water-soaked records.

—*The Office* 9/51

## *Overtime Work Wasteful, Studies Show*

EXPERIMENTS in one office indicate that overtime work constitutes a major form of waste.

Production on the day following a large output was inversely proportionate to the day before, one survey showed. Almost invariably, when the production was raised above normal by overtime, the next day's output fell below the standard.

The frequency of errors in the employees' work increased from approximately .7 as an average for the normal working hour to more than 1.5 as an average for each hour of overtime.

Production decreased discernibly each hour beyond the normal working day. During the first hour of overtime, the production was almost equivalent to the last hour of the working day, but each hour thereafter the production dropped from 1 per cent to 3 per cent below the preceding hour.

—JOHN F. PIERCE in *Office Executive* 8/51

# Also Recommended • • •

**ESTABLISHING STANDARDS FOR OFFICE SPACE AND OFFICE FURNITURE.** By C. I. Keelan. *Office Management and Equipment* (212 Fifth Avenue, New York 10, N. Y.), July, 1951. The recurring shortages of office space and the construction of many new office buildings have pointed up the value of space and furniture standards. The author presents a hypothetical set of standards, and discusses, in detail, many aspects of a complete and workable plan.

**ACCOUNTING COSTS DOWN—EFFICIENCY UP!** By Donald A. Tesch. *Office Executive* (132 West Chelton Avenue, Philadelphia 44, Penna.), October, 1951. The author gives an account of how one company successfully solved key problems in its accounting procedures, including cash receipts handling, payroll, and invoices and payments. This company has attained a much higher degree of efficiency and has also reduced its costs as a result of the new system.

**OFFICES OF THE YEAR.** *Office Management and Equipment* (212 Fifth Avenue, New York 10, N. Y.), October, 1951. Comprises six illustrated feature articles designed to present information on the design and layout of the offices honored by the 1951 "Office of the Year" awards of *Office Management and Equipment*. In addition to a detailed description of the special features which distinguish each award-winning office, each article presents several photographs of these features as well as a list of suppliers who furnished the office equipment.

**SECURITY PROCEDURES FOR OFFICES HANDLING DEFENSE CONTRACTS.** By Arthur R. Pell. *The Office* (270 Madison Avenue, New York 16, N. Y.), September, 1951. This article offers several valuable suggestions for maintaining security in offices which are facing this problem for the first time. The process by which an employee is investigated and certain companies which have special facilities for investigating applicants for employment and which can be used by interested organizations are discussed. A continuous program for keeping employees security-conscious and for checking security leaks is also outlined.

**REDUCING OFFICE COSTS.** By George E. Henry. *Purchasing* (205 East 42 Street, New York 17, N. Y.), November, 1951. This article describes how one company purchases printing, office equipment, and supplies and provides many illustrations of the savings which can result from proficient buying. This company has found that such items as lightweight record cards, multilith duplicating equipment, electric typewriters, and five-drawer file cases have effected tremendous savings.

**SAVING STATIONERY SHELF SPACE.** By Irvin A. Herrmann. *The Office* (270 Madison Avenue, New York 16, N. Y.) September, 1951. In any storeroom, there is the constant problem of utilizing the shelving space to the best advantage. The problem of storing various sizes and quantities of stationery and records can be solved by using special shelf divider units, the author believes. These units are described in detail, and a diagram illustrating the various ways in which they may be used is presented.

# Production Management

## NEW PRODUCTIVITY FOR THE WEST?

FIFTY YEARS AGO an American worker produced roughly the same amount in his day's toil as his British, German, or French cousin across the Atlantic. But so explosive has been the burst of American industrial skill since then that an American worker in coal, food, clothes, steel, automobiles, or any other machine-influenced industry will produce from two to eight times as fruitfully in a day as a European.

When all the individuals who work in the hives of modern industry are clustered together statistically, the impact of American productivity becomes staggering. Last year, for example, half a million American coal miners dug more coal than all of western Europe's two million. The gross product of western European nations last year came to $135 billion worth of goods and services. But if European productivity were as high as American productivity, western Europe would have produced between $450 and $500 billion worth of goods and services.

Rearmament, say the policymakers, can be paid for only by more privation or more production. But if Europe, which produced $135 billion worth of goods last year, could somehow work with the same skill and efficiency as America, this total could be tripled, could pay for arms, and still leave enough over to meet the happiest dreams of the ordinary citizens. Even if it is impossible to lift Europe to America's level of productivity overnight, they ask, why can't *some* progress be made? Why can't Europe close one-third of the gap between itself and America in the next two or three years, making, say, another $100 billion worth of goods?

The best answer to this infinitely complex mystery is that of social climate. American business men who come to Europe to work, to observe, or to advise sense the difference immediately.

Two things strike them. The first is cartels. No competition, they say; deadwood everywhere. "They've got these businesses loaded up with counts and marquises and government officials, all wrapped around with controls and restrictions so you can't shake them out." The second thing is the use of labor. "We could never get away with wasting labor the way the Europeans do. We'd go bankrupt."

It is amusing, listening to them, to realize that what they find most cramping in European industry was wiped out in America by two revolutionary waves of reform in the past half century. The first Roosevelt trust-busting revolution of the early 1900's created obstacles to the formation of cartels in American industrial life, forcing, or at least preserving, the competition that has goaded American producers to greater efficiency. The true cost to a nation is not the prices the cartels charge but the ossified industrial structure they preserve, sheltering producers from the goad of competition and the pressure to produce better, more quickly, and more efficiently. The Franklin D. Roosevelt revolution forged so powerful and so expensive a labor movement that labor generally has become the element of production that must be used with the greatest delicacy, skill, and

respect. As if in corroboration, business men on the Marshall Plan staff say that the greatest spurt in productivity in Europe since the war has been in Britain, where strong, free labor unions exist.

If the two revolutions in American society have made the American business man the skillful manager he is, honed to a fine edge between competition and inflexibly high labor costs, they have preserved in America a third critical element in the social climate that Europe lacks. This element, for want of a better word, can be called the political climate of investment.

In Europe, except for Britain and Scandinavia, the industrial countries have polarized into surly workers, frequently Communist-led, and harsh, suspicious, greedy employers. Over every business man hang the threats of expropriation, nationalization, riot, and sabotage. Iniquitous tax systems by which the rich continuously dodge their burden have fostered inflation, endemic now for a generation, at every national crisis. Investment capital, consequently, does not exist in American terms, so that the modernization, re-equipment, and expansion of obsolete plants cannot take place except on terms which bankers set at impossible rates. American plants can find capital for expansion at between 2 and 4 per cent. European plants must beseech bankers or governments for medium-term loans at rates that prefigure social turbulence and the continuing depreciation of money.

To create the healthy social climate in which productivity flourishes—competition, labor co-operation, investment—the kind of revolutions that occurred in American business fifty and fifteen years ago are necessary. What are the chances of such revolutions?

They might have been possible in the days when we were giving away between four and five billion dollars a year and our leverage on European nations was stupendous. But in its early years, when the Marshall Plan was law for Europe's trembling governments, the plan was too timid to tackle Europe's social problems. The plan accepted each nation's social structure and braced it and strengthened it. Thus the great new continuous-strip steel mill which the Marshall Plan is shipping to French Lorraine will be owned by members of the steel cartel, with the de Wendels the largest shareholders. American equipment and industrial aid were given by the Marshall Plan to designees of the French government. But these designees were selected for the French government by the industry *groupements* who passed on individual applications for aid in their industry. In other words, each French cartel whacked up American industrial aid for its members.

No one can judge how great or small will be the success of the current productivity experiment now being launched by ECA. Under it, if the Marshall Plan and a National Productivity Board selected by each country surveyed decide that a European plant seeking aid is a worthy claimant, it will be eligible for American engineering aid and, if necessary, new equipment. For its part, the firm receiving such aid must meet certain conditions. First, it must really apply the lessons brought and produce more. Then it must engage itself to deal fairly and equitably with the labor union of its plant. The plant may possibly be required, as an anti-inflation device, to agree that if enormous savings result from American techniques, some of these savings shall be passed along to the consumer.

Though the American engineers who come to Europe this fall can sow the technical seeds for future growth, they cannot create the climate to make the seeds

grow. It might have been done three years ago, when the Marshall Plan was launched, and this is admitted now at Paris headquarters. But as Paul Porter, the new chief of the Marshall Plan in Europe, said in announcing the present Productivity Drive, "Better late than never."

—THEODORE H. WHITE. *The Reporter*, October 30, 1951, p. 13:4.

## WHO OWNS THAT INVENTION?

THE QUESTION of ownership of inventions can be answered simply. An employer does not own the invention of an employee except by agreement with the inventor. Even though conceived and perfected on time for which the employee was paid, and developed with the facilities of the employer and the aid of co-workers, the invention belongs to the employee. However, the employer does have a "shop right," a non-exclusive, irrevocable license to use the invention.

An interesting ramification of this principle can be seen in a recent Federal Court decision which held a leading aircraft manufacturer liable for infringement of patents granted a former employee. The employee had agreed he would disclose "all inventions made, developed, perfected, devised, or conceived" during his employment. But a provision stated that if the company failed to prosecute a patent application on such an invention within nine months, the right to the patent reverted to the employee. The company would then retain, under the agreement, a shop right in the invention.

Under the agreement, the employee submitted a memorandum of the details of this particular invention. The memorandum was returned with a penciled note, "Not Interested." "That notation," the Court said, "like the 'damned spot' in Macbeth, will not out. It spells rejection of the invention which later the company used and which they would now appropriate under the claim of 'shop right.'" The employer had by this "Not Interested" memorandum rejected not only any claim to the invention but to the shop right as well, to which he would otherwise have been entitled under the law.

If a person is employed to make an invention and succeeds, he is bound by law and his employment contract to assign to his employer any patent on the invention. The invention was the subject of the employment contract, and he has produced what he was employed to produce. However, if the employment is general, though in the same field of research in which he obtains a patent, the patent under all ordinary circumstances belongs to the employee.

If a corporation employs a skilled workman to make improvements in articles it manufactures, it is not entitled to a conveyance of patents obtained by the employee if no agreement to that effect exists. This ownership of the inventor under such circumstances is, however, subject to a shop right. Since the employee uses his employer's time, facilities, and materials, the employer may use that which embodies his own property and duplicate it as often as he may find occasion to do so in his business, even though he cannot demand a conveyance of the invention.

—ALBERT WOODRUFF GRAY. *The Iron Age*, October 25, 1951, p. 104:2.

## Plant Location Based on Weather a Factor in Air Pollution Prevention

THE COST OF a study of the "air pollution potential" of a possible plant location represents but a tiny fraction of the total investment in the plant and can pay large dividends in good will, efficiency, and even labor relations, Dr. Frederick G. Sawyer, administrator, air and water research, Stanford Research Institute, Stanford, Calif., said recently in an address before the American Society of Mechanical Engineers.

The time has come, Dr. Sawyer said, when in addition to the usual considerations—proximity to raw materials, cheap and usable water, transportation facilities, labor, etc.—the weather must also be considered as an important factor in plant location. He said this new factor will grow in importance proportionally to the inevitable increasing severity of air pollution control ordinances throughout the country. A company can design and build a plant which will not be an air pollution hazard if it is armed with weather data from which to evaluate possible plant sites.

Experience in Los Angeles has shown that smoke control is not enough, Dr. Sawyer pointed out. There is evidence that invisible pollutants such as nitrogen oxides, ozone, and hydro-carbons may react in the air to form products which could cause decreased visibility, eye irritation, and vegetation damage.

Declaring that "an ounce of preventive research is worth a pound of curative legislation," Dr. Sawyer warned: "One thing is certain—much more of this type of industrial planning will be necessary in this country. It will cost industry money —big money—if a chain reaction of air pollution damage suits is directed against it. It will cost industry far less to know the facts about its contribution to polluted air—both present and future."

## Improving the Efficiency of Truck Operations

RECORDING SPEEDOMETERS, which show on a chart every aspect of a truck's daily operation, are giving more control over the operation of company-owned trucks at Benner Tea Co., West Burlington, Iowa. This device registers the distance a truck travels, the speed at which it moves, the amount of time it idles, the number of times it stops, and the length of each stop.

Analysis of charts when they are removed from the trucks at the end of each day or trip give as good a picture of what happened during that trip as could have been obtained by riding in the cabs of all trucks at the same time. This information makes possible an exact evaluation of individual driver efficiency and conduct and provides an opportunity to detect and halt—before the damage is done—the bad driving habits that produce undue wear, excessive fuel consumption, and breakdowns. It also improves driver performance because drivers know that everything they do is automatically recorded the minute they do it.

The accuracy of these records is recognized by law. This fact protects the company and the drivers against false charges of speeding and reckless driving.

—PAUL KUENZLE in *Chain Store Age* 11/51

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CLARK EQUIPMENT CO. brings materials into the plant from yard storage through a hole in the wall. A roller conveyor extends from the yard, right through the wall and into the production area. This system saves a lot of trucking man-hours; saves in-plant space no longer needed for storage; and saves heat, since the wall opening is small.

—*The Foreman's Digest* 9/51

# TRAINING FIRST-LINE PRODUCTION MANAGEMENT

HOW CAN TOP MANAGEMENT assure the application of management information, skills, and techniques at the first-line production supervisory level?

In our attempts to arrive at an answer to this question, we conducted a survey among several manufacturing companies of approximately the same size and degree of decentralization as our own. By a pooling of authoritative opinion and experience, the conclusion was reached that to assure application of training at the first-line supervisory level, a man's boss must be *trained* to train him.

On the basis of this conclusion, we asked ourselves this question: If, for example, our general foremen were to train our shift foremen, in just what should our shift foremen receive training? To find the answer, we conducted private interviews with some 70 production supervisors from our own and other companies included in the survey.

During the interview we made the following observation and asked this question: "O.K. Joe, you've been a supervisor for (anywhere from 6 months to 27 years); just what do you think a good first-line production supervisor *must* do?" In a great majority of cases, we received four "standard" answers in the following order of frequency: (1) "I have to get out production." (2) "The stuff we put out has to be good." (3) "I have to keep my crew happy." (4) "I have to keep my costs down."

Our next question went something like this: "O.K., Joe, how do you get out production?" or "How do you keep your costs down?" In the great preponderance of cases, the conversation ceased at this point. It was abundantly clear that when the first-line supervisor mouthed such expressions as "get out production" or "keep my costs down," he did not have a very clear concept of just what those phrases meant or what they entailed.

With this knowledge, we drew up an arbitrary list of eight "*must do's*" which seemed to cover the job of first-line shift supervisors. We suggested that our general foremen sit down with their shift supervisors individually and present these points in an interview during which the general foreman would define to his shift supervisor what he is expected to do. The eight "*must do's*" are as follows:

| *Must Do* | *Percentage of Eight Hour Day* |
|---|---|
| 1. Work Distribution | 6 per cent |
| 2. Job Instruction | 45 per cent |
| 3. Work Simplification | 11 per cent |
| 4. Human Relations | 5 per cent |
| 5. Getting New Employees off to the Right Start | 8 per cent |
| 6. Directing Technical Assistants | 5 per cent |
| 7. Making Necessary Reports | 5 per cent |
| 8. Receiving Instructions | 7 per cent |

At this point, however, it became clear that the general foremen had not necessarily mastered the skill required to conduct the interview successfully. Recognition of this fact led us to the development of a training procedure designed to impart the required techniques.

This procedure involves the use of two audio-visual aids. The first is a sound movie entitled "How to Make a Sales Presentation Stay Presented."* It is used with the individual general foreman during the first training session and is for the sole purpose of emphasizing the importance of organizing one's thoughts in advance. The second audio-visual is a

* A Borden and Bussey production.

sound-slide film pointing up the need for the interview and embracing an interview technique which may be used in defining the eight "*must do's*" of a first-line supervisor's job to him. This sound-slide film is entitled "Bill Makes a Decision." The film and sound were especially produced for us* on the basis of our own script.

Following the showing of this sound-slide film, the trainee (a general foreman in this case) and the instructor discuss the film. It is pointed out at this time that conducting an interview is a skill and that mastery of a skill can be attained only through practice.

The general foreman is then asked to familiarize himself with this script (the interview proper) so that he can read it with some skill into a microphone at which time a tape recording is made. A play-back of this recording gives the trainee an opportunity to hear and criticize his own voice and manner of delivery. It provides the instructor with a similar opportunity for criticism and encouragement. It is then suggested to the trainee that he prepare his own "script" and that he use the tape recorder as an aid in mastery of his own script.

When he masters his own presentation, the general foreman is subjected to a role-playing technique, during which he conducts the interview and gains experience in handling the most common objections, complaints, and interruptions which may occur during an actual interview. A tape recording is made of this "final" practice interview and is filed with recordings of previous efforts as objective evidence of progress in mastery of the technique.

The general foremen who have received this training, mastered the technique of the interview, and who have used it, tell us that they have experienced a noticeable improvement in their own self-confidence as well as that of the first-line foremen under their supervision. At the same time, comments received from shift foremen who have experienced the interview with their bosses indicate an improvement in their respect for them.

We also found that performance ratings of first-line supervisors based on a clear concept of the "*must do's*" promote improvement of efficiency and reduction of manufacturing costs. In at least two instances, a critical examination of supervisor performance in connection with this project has resulted in beneficial reorganization of the departments.

Finally, this individual approach to the training of first-line production management pin-points training needs, a feature most useful to both line and staff organization in designing procedures to meet those needs.

* By Drama Associates.

—From an address by E. S. HOWARD (Manager, Production Training, Minnesota Mining and Manufacturing Co., St. Paul, Minn.) before the American Society of Mechanical Engineers.

## POINTERS ON MILITARY PACKING

MANY DEFENSE CONTRACTORS have difficulty in complying with government packing specifications. Trouble comes from shortages of specified materials, lack of qualified help, and the need for expensive equipment. Also, costs are often higher than anticipated. If you face the problem, you'll be interested in the following pointers drawn from the experience of many government contractors:

*Check packaging specifications before bidding.* Some companies have found, too late, that their normal packaging methods weren't acceptable. "Extras," such as cleaning and preservation, specially treated papers, etc., plus the added labor they require, can take the profit out of a job.

*If you deviate from specifications, get approval first.* Occasionally, over-elaborate methods may be prescribed. When this occurs, a conference with the contracting officer and the inspector may result in permission to deviate from the specification. Get this in writing as a safeguard against later disputes.

If you find an adequate substitute material for one in short supply, the same approach may crack a bottleneck—and avoid serious delays in delivery.

*Instruct subcontractors on packing requirements.* Many companies overlook this point and get involved in costly repacking operations.

*Test surplus materials before using them.* World War II surplus stocks are still available and often offer good buys. But some companies have had trouble with inspectors, grease-proof papers, for example, often lose their pH rating and grease-proofness after several years.

*Are packaging personnel well trained?* The Ordnance Department has a training center at Forest Products Laboratory, Madison, Wisconsin, for military and industrial packaging people. Additional schools are being established by the Department of Defense. Companies supplying a variety of items for military use may find it worthwhile to send shipping department foremen to these centers.

*Consider the advantages of using a packaging specialist if the government standards seem to spell trouble.* The benefits of this approach are obvious where special new equipment, such as a dip tank, drying oven, or spraying machine is required. Even where extra equipment isn't needed, firms who've farmed out this job report several gains: (1) They know in advance exactly what the packing cost will be. (2) A reliable packaging subcontractor will guarantee compliance with specifications. (3) The company is relieved of the burden of unfamiliar work. (4) Preparation of shipping and inspection documents is taken over by the subcontractor. (5) Resident government inspectors give speedy approval, resulting in quicker payment. (6) Warehouse space of the manufacturing company isn't cluttered up with completed items waiting for packaging and final inspection.

If you decide to follow this method, you will want to check carefully the qualifications of the packer. If resident government inspectors are permanently assigned to a company, the packer probably knows his business. Another guide may be found in lists of qualified companies often available from procurement officers (though the government won't recommend a specific firm).

If you use an outside packer, specify in your bid that the point of final shipment will be at the packer's plant. Otherwise, paperwork will be confused, and you'll have to pay any difference in freight that may be involved.

—*Operations Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.), November 6, 1951.

DEFENSE COSTS will be taking the equivalent of one day's work in five for the whole nation from now on. This compares with a third of a day's work each week before Korea and less than an hour a week before World War II.

—*Management Information* (Elliott Service Co., 30 N. MacQuesten Parkway, Mount Vernon, N. Y.) 9/10/51

## "String Savers" Among Small Plants Curtail Production

MANY SMALL PLANTS impede production because they are "string savers," Frank K. Shallenberger, associate professor of industrial management, Graduate School of Business, Stanford University, declared recently in an address before the American Society of Mechanical Engineers. Poorly planned plants cluttered with miscellaneous "junk," and hampered by antique equipment make good shop "housekeeping" impossible, he said, laying the blame on over-conservative and unimaginative management.

Small plants of less than 50 employees comprise more than 80 per cent of manufacturing plants in the country. Their part in defense mobilization will depend on their productivity, a problem of manpower, plant and equipment, and management, Professor Shallenberger pointed out.

The foreman in a small plant has extra responsibilities which in a larger plant are handled by staff people. While a formal training program may not be justified, the company can use supervisory round tables, adult training courses in nearby schools, reading programs, visits to other plants, and membership in foremen's organizations to develop its supervisory staff, he declared. A productivity committee of all supervisory personnel might meet regularly to consider plant operating problems, he suggested.

In Prof. Shallenberger's opinion, wage incentives are not necessarily the best means of motivating good workers. A group bonus, based perhaps on labor cost as a percentage of sales, is likely to be more effective and less costly than individual incentives in the small plant. Profit-sharing may be effective in stimulating the small group responsible for management decisions, he added.

He also suggested that powered equipment could be substituted for hundreds of jobs still performed by hand, and air or hydraulic vises, traverses, and feeds could be provided.

Neglect or incompetence in non-manufacturing functions, such as finance, can have as great an effect on productivity as shortcomings in production, he declared. As an example he gave a problem in credit: "A small foundry, pressed for capital recently, found its average turnover of accounts receivable was 90 days while the average for its industry was 35 days. In a period of three weeks, it added substantially to its available working capital by action to speed payments. It raised additional cash by liquidaton of excess metals inventory, some of which had been on hand for more than five years."

## Big Plants Have Lowest Accident Rate, Studies Show

AT the President's Conference on Industrial Safety held in 1950, it was shown conclusively that the accident rate is lower in large companies than in small ones. The Committee on Accident Records, Analysis, and Use reported to the Conference its conclusion that "the greatest accident-prevention problems exist in the smaller plants, specifically in those having fewer than 500 employees."

Two sets of data were submitted to the Conference, one prepared by the National Safety Council and the other by the U. S. Bureau of Labor Statistics. The National Safety Council found in its 1949 studies that the accident frequency rate in plants employing more than 500 persons was less than half that of plants with fewer than 500 employees. The severity rate was also appreciably lower. A special study of three industries, made by the Bureau of Labor Statistics, showed that in general the accident rate declined as the number of employees per plant increased.

—*Steel Serves the Nation* (U. S. Steel Corporation)

## Stopping the Rising Accident Trend

FACTORY ACCIDENTS in the nation are on the rise again, according to latest figures released by the Bureau of Labor Statistics. This rise is a sharp reversal of the recent downward trend in on-the-job accidents, and it looks as though it may be the

beginning of a whole new upward trend, similar to what happened at the beginning of World War II. How can this upward trend be stopped?

According to the Bureau of Labor Statistics, rising employment and longer working hours have had something to do with the upswing in injuries. Specifically, our nation-wide accident record showed accidents were largely caused by new workers, longer working hours, and the transfer of employees to unfamiliar jobs.

Facts show that injury rates usually rise when hirings go up, and fall when hirings drop off. Therefore the first thing to do is to help a new man understand his job. Work with him to make him "safety-minded."

Second, since over-tiredness and fatigue may cause workers to let up on safety precautions, plan ahead on the scheduling of work. Avoid catching up with overtime hours. Build interest among employees in their work. Show them that it pays to work safely at all times.

Finally, since transferred employees are somewhat more likely to be injured, as compared with employees who stay on their old jobs, don't take for granted that an old worker knows any new job he is assigned. Be careful to cover all new safety angles that he must know. Refresh his thinking on the old ones too.

—*Management Information* (Elliott Service Co., 30 N. MacQuesten Parkway, Mount Vernon, N. Y.) 9/3/51

# Also Recommended • • •

**USING A MOVIE CAMERA IN SETTING AND SELLING PRODUCTION STANDARDS.** By Harold R. Nissley. *Machine and Tool Blue Book* (222 East Willow Avenue, Wheaton, Ill.), September, 1951. The author points out the many advantages of using low cost 16 mm. movies of shop operations in setting production standards, in selling production standards, in suggesting work simplification techniques, in preserving historical records, etc. In one dramatic instance, a movie record showed a 200 per cent variation between an estimated work factor figure and the actual figure as shown by the movie frame count.

**THE HOW AND WHY OF SQC.** By J. C. Knapp. *Plant Administration* (481 University Avenue, Toronto, Canada), August, 1951. This is the first of a series of articles dealing with the history, purpose and fundamental principles of "Quality Control by Statistical Methods." The author illustrates his practical applications of the principles discussed by the statistical and graphical devices used.

**ACCEPTANCE INSPECTION OF PURCHASED MATERIAL.** By J. E. Palmer and E. G. D. Paterson. *Industrial Quality Control* (239 East Chicago Street, Milwaukee, Wisc.), September, 1951. This is the first half of a paper which deals with some of the principles and procedures employed in the inspection of purchased products or product parts. The tendency in recent years has been to reduce incoming acceptance inspection on the part of the purchaser by transferring to the supplier the responsibility for providing certified factual quality information of specified character and quantity.

**QUALITY CONTROL.** By Theodore H. Brown. *Harvard Business Review* (Gallatin House, Soldiers Field, Boston 63, Mass.), November, 1951. The author's aim in this article is to give business men an understanding of the basic concepts of quality control and its importance in industrial and military procurement, so that they may judge its potentialities and limitations for their own companies. As a result of the application of quality control, savings as high as $25,000 to $50,000 for a single department in some large plants have been realized.

**THE PRINCIPLES OF GOOD MAINTENANCE ARE PROVEN IN LONG-TERM PROGRAM.** *Manufacturing and Industrial Engineering* (73 Richmond Street West, Toronto 1, Canada), October, 1951. This article outlines the principles of good maintenance operation by specific reference to work facilities, personnel policy, supervisory techniques, communications, etc., as they have been developed in over 20 years at an oil refinery. The two most important factors in an efficient maintenance operation, according to the author, are carefully chosen personnel and good tools.

**BETTER QUALITY VIA THE SUGGESTION BOX.** By Joseph Manuele. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), October, 1951. The author suggests the use of statistical control charts to locate production problems and describes a method for stimulating employee suggestions which may be helpful in improving product quality. He cautions that there must be adequate rewards and the suggestions must be adopted, not just "accepted," if the suggestion system is to succeed.

# DEVELOPING AND UTILIZING THE SALES FORECAST

NO BUSINESS MANAGEMENT can escape forecasting—by intuition or by a more formalized method. Not to forecast really means to forecast no change, and under conditions such as those now existing this may be the most dangerous kind of forecasting. The principal question to be faced in business is, therefore, *not* "Shall we forecast?" but rather "How can we improve our forecasting?"

Forecasting is conducted in many different ways, ranging from very informal methods to highly complex ones, but most methods fall into five general classes:

1. "*Sample of One.*" According to this informal method, which is the most popular type of forecasting, the outlook depends upon the latest single "tip" or personal observation. Any specific piece of information believed to come from a reliable source provides the basis for a new forecast.

2. *Take a poll.* This is a common method, used particularly by sales executives in asking their salesmen to poll customers as to probable purchases of company products over the forecast period. Results often are misleading or in error because of the well-known failure of such informal polls to be based upon a proper cross-section of the best-informed or influential people, and also because of the tendency toward the "sheep" complex in answers gathered unsystematically. However, this method is most useful as a check against a forecast made upon some other basis.

3. *Key-factor approach.* Observation and analysis have shown that as some particular factor or indicator goes—so goes the business in question. Common illustrations of key factors or indicators are: disposable income, money supply, construction contracts, FRB index on industrial production, and capital investment in industry. This method assumes some type of lead or lag relationship between the key factor and the sales of the company making the forecast.

4. *Historical analogy.* Individuals using this method generally have studied key factor relationships and have noted certain recurring patterns of activity in their own sales as well as in general business. The search is for "timing" signals which will suggest that some new phase of activity is about to get underway. Though what has happened in the past is by no means a foolproof guide to the future, this method can be useful in analyzing at least how the immediate situation differs from similar past ones and hence can offer a basis for forecasting on more than historical repetition.

5. *Mathematical—econometric projections.* This method employs a mathematical formula which reflects the interrelations of the principal variables influencing company sales. Econometric "models" rest heavily upon historical relationships but are highly regarded by many analysts as being the most objective method of forecasting. However, since human judgment enters heavily into the construction of the individual formula to be used, the method actually may be less objective than claimed.

Of all these methods of forecasting, no single one is best for all uses, and none is infallible. A composite method there-

fore seems likely to be most satisfactory and adaptable to varying needs.

Since the company sales forecast must take full cognizance of "outside" factors, it is important to begin by directing attention to *general business prospects.* Chart historical relationships between company sales and key measures of national or regional business activity. Inspect available figures and, with reference to charts, determine broadly for your use what the "standard" or "norm" level of business is for your firm, your industry, and perhaps even the nation generally. Determine the extent to which current conditions deviate from the standard norm level in order that you may have some general idea as to the direction of the next major change in business and list the principal factors likely to influence general business over your forecast period.

Separate those factors which seem most uncertain from those which appear fairly certain and draft alternative sets of assumptions regarding these uncertain factors: (1) If they all work out for better business—how high could business go? (2) If they all work out for worse business—how low could business go? (3) What, in your best judgment, is the most probable outlook for the uncertain factors? Here is the basis for your actual forecast.

Make tentative forecasts of the few key national business measures which you have found have the closest relationships with your business and forecast each on the basis of the three sets of assumptions. You can then interpret what these general business forecasts mean for your industry, your company, and ultimately your individual products.

—From an address by WALTER E. HOADLEY before the Industrial Management Institute, University of Wisconsin, Madison, Wisc.

## *Dollars Go Farther in Advertising*

COMPARED WITH PREWAR DAYS, advertising probably gives the business man more for his money today than anything else he buys. Inflation has hit advertising rates far less than other business costs.

To be specific:

1. Analysis of newspaper rates and circulations in 10 major markets shows that the milline rate for 30-odd papers in those cities has gone up less than 20 per cent.

2. Outdoor posters and network radio have not raised their cost per-1,000 rates since 1939. Cost per-1,000 listeners for spot radio is up very little.

3. For 26 magazines studied, the cost-per-1,000 net paid circulation is up only 8.3 per cent since 1939.

4. Car cards, for only 16.2 per cent more money, are placed before as many readers as they were pre-war.

5. Business papers, according to figures for 50 publications, now charge one-third more for a page ad than in 1939.

6. For five major farm publications, the cost-per-1,000 increase has been a little more than 25 per cent in 11 years.

7. Direct mail, because its costs are more nearly related to wages and other factors that have felt the full force of inflation, apparently has nearly doubled in cost to advertisers since prewar days.

—*Advertising Age*

COLOR ADS PULL BEST: The greater pull of color ads over black and white is put as high as 50 per cent and not less than 30 per cent.

—*Women's Wear Daily* 8/9/51

# HOW PLUGGERS ARE MADE INTO SALESMAKERS

DONALD A. LAIRD*

THERE ARE not enough "natural born" salesmen to go around. Actually, this is fortunate, for it has brought home to business the need for training ordinary pluggers to become superior salesmen. As a result, the trained plugger dominates the sales field today, while the "natural born" keep customers stirred up and the sales manager in hot water.

The plugger's dominance in selling, like his training methods, evolved slowly but steadily. The first sales training school was started by the National Cash Register Co., in 1894, when the firm had 19 salesmen. (Now it has some 6,000 salesmen, and all receive rigorous sales training.) Those first 19 had to memorize "The Primer," which was a brief sales talk written by the star producer.

Thus began the period of the canned sales talk—"Parrot selling," it was called later. The canned talk had the advantage of making sure the salesman skipped none of the selling points about his product. Quite often, however, the salesman raced through the canned talk, like a school child bouncing through a recitation of "Mary Had a Little Lamb." Neither the voice nor the words sounded like the salesman's own, and customers were often amused rather than convinced. The canned sales talk did not live up to its early promise because customers are not slot machines. A coin in a soda-pop machine brings results; but a canned talk shot into a prospect's ear does not make him buy.

Early sales training gave little time to understanding and getting along with the customer. (There wasn't much known about that, anyway.) The first attempts to teach the human nature of the customer produced a lot of plausible nonsense. Magazines and books were filled with "how to sell" advice which made scientists who knew human nature laugh aloud. Some companies spent large sums for patented selling methods which they thought gave some secret power over customers. We know of companies at present who still use these utterly stupid systems left over from Barnum.

By World War I, selling formulas were on the scene and going strong. The most widely used formula charted four steps for making a sale: (1) Attract the customer's attention. (2) Arouse his interest. (3) Create his desire for the product. (4) Then get action—close the sale. These formulas, by centering thinking on the prospect's reactions and attitudes, were useful in sales training. They also made salesmen more systematic in their presentations. Many of today's top-producing salesmakers try conscientiously to plan each sale so that they can touch all four steps in the proper order when talking with a prospect. But the theory of selling steps is based on a fallacious psychology. The four steps, or five in some formulas, were just a complication of the coin-in-the-slot idea. Instead of one coin, there were four or five to be dropped in correct sequence, like the combination for unlocking a safe. The steps seemed logical, but human nature does not reach decisions by steps.

Sales people have always searched for convincing phrases which would hypnotize customers into buying. (Belief in the magical power of incantations is very ancient.) This is why many firms value their slogans highly, though few prospects know which slogan belongs to which

* Dr. Laird's latest book, *Developing Salesmanship*, will be published by McGraw-Hill Book Company in 1952.

firm. The most that can be expected from a slogan is (1) that it will make the firm or trade name better remembered, and (2) that it will bring favorable notice to the product. Sizzling sales phrases are condensed canned sales talks, phrases which do impress customers. But they don't sell unless the *total situation* puts the customer in a buying frame of mind.

Now for a short section that is of top importance for the plugger to understand. This section should be read over, and thought over, until the salesmaker realizes what the total situation means and why it has top priority in all sales effort.

Since World War I, a great deal has been learned about the motivation of human behavior. Old ideas about inborn instincts that led people to buy, such as rivalry, acquisitiveness, love of display, sociability, and a dozen others, have been thrown out the window. Researches and clinical studies have pretty well established that it is the total situation which leads people to act or do—and that includes buying. People are not bundles of unrelated impulses, responding reflex-like to a tap on the knee or a coin-in-the-slot. *What we do is determined by many forces, working on and within us at the same time,* not by an instinct or a compelling phrase.

Here comes Mrs. Brown to make a purchase, for instance. She has the reputation of being a penny-pincher, always looking for a markdown. That reputation gives the salesman a cue to her inner motivation. But if he tosses the article to her as if he didn't respect it and calls her a tightwad, he has made a total situation that will ruin the sale even if he offered her the article at 5 cents on the dollar and with a red-hot sizzle thrown in.

The sale is seldom due to one thing the salesman says, but to *everything he says and does.* The total situation has to (1) be friendly, (2) be confidence-inspiring, (3) expand the prospect's self-regard, (4) uncover his interests and needs, and (5) make it easy for him to decide. There are no steps in a sale. A sale is a steady building up of a total situation that reveals and intensifies the motivation already within a customer. A magic phrase cannot instill a buying motive in a customer. But an unfavorable over-all situation will make the customer suppress or lose his motivation for buying.

The physical atmosphere of most sales places is carefully planned. The sales rooms or offices are arranged and fitted to be comfortable, pleasing, and impressive. That is part of the total situation. However, the mental atmosphere, or spirit of meeting with the customer, is more essential to the total situation than are the physical surroundings. Is the mental atmosphere cordial, lackadaisical, or hostile? Will the customer feel he is being helped or trapped? There is no use in trying any series of steps until the mental atmosphere is right. Sizzling phrases are wasted until the total situation is such that the sizzle will fit the occasion.

The sales person needs a sensitive appreciation of the moods and attitudes shown by others in various situations; this is called social insight. He must be able to discriminate, to know when it is time to flatter or keep quiet; he must know how far to go when discussing how a product is made, and whether to smile or be deathly serious.

Formula sellers, like inexperienced sales people, lose many sales because they do not estimate, or control, the selling atmosphere. They try to sell before the total situation is ripe. This mysterious thing called *timing* is only the knack of waiting until the situation is ready. The creative salesmaker first sets up the right situation, then judges the right time.

## Selling Via Sound Tape

PAPER WORK has been completely eliminated for the five salesmen of Continental Consumer Co-Op Association, Seattle, Wash. They don't even write up orders. And most of the sales manager's paper work in contacting the salesmen has been eliminated.

The best communications system, Clif Goodman, president of the company, maintains, is by voice. The cheapest system is by mail. Therefore, Continental Consumer has combined the best features of both systems. Tape recorders and 7½-minute reels of sound recording tape are used, and Alaskan customers, the salesmen, and the Seattle office air mail them back and forth.

To streamline the system, the firm has eliminated special mailing cartons. A salesman now simply puts the three-inch plastic reel of tape into a regular No. 10 business envelope, puts 14 cents postage on it, and the next morning it arrives in Seattle.

Tape recordings are used by: *The salesman*, to report details of orders, shipping requirements, and similar data; to comment on marketing conditions he observed during the day; to ask questions, relay complaints, offer suggestions, and answer inquiries from Seattle. *The customer*, to record complaints; to comment on changing sales volumes and current buying habits of shoppers; to report that a particular line is selling unusually well, or poorly, and why.

The salesman carries the tape recorder with him. During some calls, he has it with him in the store. During others, the salesman may leave the recorder in his car. In such cases, he jots down on a note pad the orders he receives and then records them on tape later in the day.

Among the major advantages Mr. Goodman sees for the system—in addition to the rapid relaying of complete details—are the personal touch tape recordings provide and the hours of time saved.

—*Sales Management* 8/15/51

## Bigger Advertising Appropriations Seen

MAYBE it's taxes, maybe it's rate increases, maybe it's just that some think this is a good time to buy more profits insurance, but the investment American business will make in advertising this year will top $6 billion.

Greatest strides are being shown by TV, as might be expected. With the advent of coast-to-coast television coverage, an increasingly larger portion of advertising programs will go to that medium.

Higher postage rates, now assured, will force magazines to raise rates again in 1952. Newspaper rates are also going up as newsprint becomes more difficult to get and publishers find it necessary to "ration" space. Advertisers should, therefore, cover themselves as far ahead as possible on advertising space requirements for 1952.

—*Newsletter* (The Dartnell Corporation, Chicago, Ill.) 9/22/51

### AMA MARKETING CONFERENCE

*The Marketing Conference of the American Management Association will be held on Monday and Tuesday, February 11-12, 1952, at the Hotel Statler, New York.*

# REVISING SALESMEN'S PAY PLANS

TODAY NEW SALES CONDITIONS are forcing companies to make adjustments in their salesmen's compensation plans. Curtailed production, inflated prices and a buyer's market, and disproportionate sales costs are common problems faced by many companies. The following compensation plans, successfully used during World War II, may help you modify your present system to fit such conditions:

Companies selling durable goods will increasingly face the problem of holding experienced salesmen as they get less and less metal. In '42, when material shortages made it necessary to ration output, Company X put its salesmen on customer servicing, gathering of market research data, expediting deliveries of materials from suppliers in the territory, etc. Since this obviously required a complete revision of the compensation system, the company established a group bonus plan equal to 15 per cent of total salaries paid to salesmen, with bonus shares for individual salesmen determined by a merit rating plan. The average rating for the sales group was then determined, and was arbitrarily assigned an average bonus, 15 per cent. Men with higher or lower than average ratings got proportionately more or less than the 15 per cent bonus.

However, you risk losing top salesmen if they don't agree with the manager's subjective appraisal. A straight salary plan may, therefore, be a better alternative. With earnings protected, salesmen will frequently handle customer servicing, expediting, or other non-selling jobs more satisfactorily than if they had to worry about merit ratings.

Some manufacturers, not getting the high volume they expect, are blaming lack of sales effort. When Company Y found that it wasn't getting the intensive coverage of prospects it wanted, it decided to try a merit-rating system based on number and types of calls. A par score for individual salesmen was worked out by totaling pars for calls in a month, different accounts called on, number of calls to each type of account, etc. A salesman's income for the following month was increased or decreased according to the amount he was over or under par. A maximum of 20 per cent was set on gain or loss from one month to another. A salesman was not eligible for increased earnings unless he met a sales quota regarded as sufficient to cover his salary and expenses.

In some companies, commission and salary-commission salesmen fall heir to very high incomes from inflated prices and volume unrelated to sales effort. This is probably even more dangerous from the morale angle than it is in terms of expense. One company shifted salesmen from straight commission pay to salary plus commission. Salary was established for each salesman at 90 per cent of his "normal" earnings, and a new commission rate was set at 10 per cent of the old straight commission rate. Some companies took a different tack, merely changing commission rates to prevent windfalls. In many cases, this was done by cutting all rates across the board. In others, it was found more feasible to introduce a downward sliding scale so that marginal sales received a reward commensurate with the smaller effort required. Companies already using an upward sliding scale reduced the rates in the upper volume brackets.

The profit squeeze is turning the spotlight on selling costs, even though volume is high. One company has worked out an interesting plan which ties a salesman's quota to his expense account, allowing him to police his own expenses

under a salary-plus-commission plan. Company Z gave all salesmen a salary base of $3,900 a year, plus a commission of 2 per cent on sales over a quota. The quota was set at 20 times the sum of base salary plus all the salesman's controllable expenses (travel, entertainment, subsistence, etc.). Salesmen were able to reduce or increase expenses to their best advantage, and the company had no headaches over expense accounts because quotas shifted accordingly. Thus, in terms of salesmen's salaries, expenses, and commissions, the company was getting sales up to quotas at a cost of 5 per cent of sales and sales over quotas at a cost of 2 per cent.

Some firms are adapting to material shortages by manufacturing new items or taking on distribution of other companies' products to round out a line. Compensation plans that were satisfactory for established products may not be adequate for pushing the new one. Company W, marketing a new product, decided to revise its salary plus commission plan to place more emphasis on incentive. Basic salary was reduced, but commission payments began at 50 per cent of the monthly sales quota, and the company introduced an upward sliding scale. X per cent was paid on 50 per cent-80 per cent of sales quota. 1.4X per cent on 80 per cent-110 per cent, and 2X per cent on all sales over 110 per cent of the quota. Sales volume for '50 came close to the company's objective as a result.

—*Distribution Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.), October 16, 1951.

## *10 Sign Posts to a Good Salesman*

SUCCESSFUL SALESMANSHIP can transcend the vagaries of bad breaks and bad times, according to A. N. Seares, vice president of Remington Rand and of the National Sales Executives Club—if the individual salesman develops 10 "indispensable attitudes." He must:

1. See himself as serving his customer by helping him enlarge his vision and life.
2. Recognize that the customer is always right and try to win friends rather than arguments.
3. Recognize sales success as a synthesis of thinking, developing, demonstrating, adjusting—not lucky breaks.
4. Be constantly aware that he has the same number of hours in his day that competition has, but that the application of his hours is *his* business.
5. Keep in mind that neatness, cleanliness, and good grooming can help make the first superficial impression a favorable one.
6. Realize that people are going to know whether his feeling toward them is friendly or unfriendly, and they are going to react accordingly.
7. Recognize the value of sales forums, clinics, and the various aids his home office provides, naturally sifting out some that is chaff for him but using all the good grain he can find.
8. Be aware that a straightforward solicitation of a man's business is flattering and will get that order if there is a reasonable chance.
9. Sell in line with his firm's credit department, being conscious of their operation problem and helping them by selling only to firms of sound credit rating.
10. Think and act constructively and optimistically, winning business by building up his story and *never* by tearing down the competitor's.

—*Modern Industry* 10/15/51

# HOW YOU CAN BUILD A MAILING LIST

**A** GOOD MAILING list is an invaluable asset. One firm earned over $50,000 in one year by just renting its list to others. It also grossed several million dollars in sales from shop-by-mail buyers on its customer mailing list. Because a correct mailing list is often the most important part of any direct mail campaign, wise mail order merchandisers should work hard in building their customer lists.

A good mailing list is: (1) completely free of errors in names and addresses; (2) up to date, with all "dead-wood" names cleared out periodically; (3) carefully divided between prospects and actual buying customers. (There's a big difference between a mail order inquiry name and a person who actually bought by mail.)

How can you build a mailing list? Here are several ways that have worked well for various mail order firms:

*Display Advertising.* If you want buyers, advertise a specific product, stating postpaid price, description, delivery information, and guarantee. If you want inquirers of a certain type, offer a free booklet or catalog pertaining to the product or service you're offering.

*Classified Advertising.* With this type of ad, you can usually secure good inquiry names. And if the mailing piece you send to these selected inquirers is effective, you'll get orders.

*Exchanging Lists.* Many mail order firms exchange lists. Such exchanges usually bring new customers to both companies.

*Letter and Mailing List Brokers.* America's mailing list brokers have millions of names available for rental purposes. For example, you can rent the names of all the millionaires in the U.S., or all car owners, or all airplane owners; or you can rent the names of folks who have bought gifts, housewares, candy, fruit, shoes, clothes, etc., by mail.

*Friends' Names.* If you've pleased your customer, he'll tell others about your company and your service. If you provide a space on order blanks, many customers will furnish names of their friends who may be interested in your products. Such names are usually excellent prospects.

*Publishers' Lists.* Many business publishers have mailing lists available for rental.

*Trade Directories.* Just about every industry has a directory which is published periodically. Such directories can be purchased for a few dollars.

*Telephone Directories.* You can purchase telephone directories for any city in the country through your local telephone company.

There are other ways to compile mailing lists, but these appear to be best on the basis of experience.

Build your mailing list with extreme care. Keep it up to date. Then send to the names on your list only sales literature of interest to them. You'll be pleased with the money-making results.

—WHITT NORTHMORE SCHULTZ. *Advertising Age*, September 10, 1951, p. 70:2.

### Other Foot

WHO'LL ask controls so what we buy'll
Be lower priced? Why, you and I'll
And who will make the loudest squeal
If what *we* sell is lowered? We'll.

—DON MOON in *Pathfinder*

## Also Recommended • • •

**HOW TO GET YOUR SALESMEN TO READ BOOKS.** By Herbert L. Stephen. *Printer's Ink.* (205 East 42 Street, New York 17, N. Y.), October 5, 1951. This article describes a plan which one large company has used successfully in getting its salesmen to read books on selling and office management. The author attributes the success of this project to the voluntary co-operation of all concerned, which has been developed by slow indoctrination from top management down through the ranks.

**14 PRACTICAL WAYS TO HELP YOUR DISTRIBUTORS—NOW.** By Louis H. Brendel. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), August 15, 1951. The relationship between a manufacturer and his industrial distributors is of prime importance, particularly during this semi-war period. The author presents a checklist of 14 practical suggestions to guide the manufacturer in helping his distributors.

**HOW TO THINK ABOUT DIRECT MAIL.** By Henry Hoke. *The Reporter* (53 Hilton Avenue, Garden City, N. Y.), October, 1951. This detailed outline of a study course in direct mail advertising suitable for groups or individuals covers, in five sections, what you should know about people, about planning your letter, about the construction and writing of letters, about analysis and criticism of letters, and finally about testing. The author supplements this basic information with suggested methods of further study and a bibliography of recommended reading.

**PAY PLAN LONG ON INCENTIVE SPEEDS UP SALES FOR DAYSTROM.** By T. Stanley Gallagher. *Sales Management* (886 Fourth Avenue, New York 16, N. Y.), September 1, 1951. The author describes the improvement in sales incentive which resulted when one company revised its compensation setup to provide a sliding scale of commissions over 50 per cent of quota. The new plan was a major factor in increasing the company's commercial sales by 27 per cent in one year.

**HOW TO ORGANIZE YOUR CATALOGS.** By Howard G. Sawyer. *Industrial Marketing* (200 E. Illinois Street, Chicago 11, Ill.), September, 1951. The purpose of the industrial catalog is not to advertise, but to help the user find what he wants *after* he has decided to buy. The author gives detailed practical advice on the preparation of an industrial catalog and cites specific catalogs which serve as good examples to follow.

**READERSHIP RESEARCH—AN APPRAISAL.** By Fergus Mead. *The Advertiser's Digest* (415 N. Dearborn Street, Chicago 10, Ill.), October, 1951. In this examination of the importance of research in advertising readership, the author concludes that though this research cannot turn up an infallibly reliable formula for producing perfect ads it *can* and *does* supply the raw material of field work and tabulation which management must learn to use. In an effort to create a more objective attitude toward research, the author discusses its advantages and limitations by citing specific studies to illustrate his points.

**PERSPECTIVES FOR MARKETING PRACTICE.** *Cost and Profit Outlook* (Alderson & Sessions, Broad & Walnut Streets, Philadelphia 2, Penna.), September, 1951. This article points out the need of management for marketing analysts with sufficient perspective to draw up recommendations based on facts and to establish positive principles of action. The marketing analyst is depending more and more on the marketing faculties of universities and is expecting more than a purely descriptive and technical treatment of marketing; he is aiming at an improved understanding of such fundamental topics as demand, supply, and competition, which are touched on briefly in this article.

**WHAT FIRMS DO WHEN THEY TRANSFER THEIR MEN.** *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), August 15, 1951. This report presents, in capsule form, the current policies of large, medium, and small concerns in leading industries in assuming the expenses involved in moving a salesman's family. The survey reveals that it is a uniform policy for the company to pay moving expenses; however, there is no uniform policy adopted by companies with regard to becoming involved in the housing problem.

**HOW TO GET PUBLICITY FOR YOUR NEW INDUSTRIAL PRODUCTS.** By Arthur N. Gregg. *Industrial Marketing* (200 E. Illinois Street, Chicago 11, Ill.), September, 1951. The author outlines a program of techniques for getting publicity on new equipment and new literature, based on conversations with executives and staff of industrial advertising agencies, publicity agencies, and publicity departments of leading industrial suppliers. A checklist of do's and don'ts which should be a helpful guide for publicists, is included.

## Financial Management

# IF COMMON STOCK WON'T DO

INDUSTRY IS COMING into the stock market for equity money to finance expansion and pay off debt. But the play isn't all on new common stocks. It's also on issues of preferred stock, convertible into common.

Why convertible preferred? It would seem that in today's bull market companies would simply sell new common. But even at today's prices the stock market doesn't seem attractive to the company treasurer. He figures that issuing new common stock means selling a piece of the company's assets and earnings. Stock prices aren't tempting when he considers the actual value, in terms of replacement, of current plant and equipment. Yet, if the company has already borrowed quite a bit, plant expansion may depend on getting more equity money.

Convertible preferred is a ready-made answer to this problem for a growth company. The company gets its money by selling preferred stock. The preferred can be converted into common, but the conversion won't be profitable until the price of the common is somewhat higher than the current market value. If the market does rise, most, if not all, holders of the convertible issue will make the conversion. And when this is done, the company has, in effect, sold new common stock at a price it considers adequate.

Suppose American Widget Co. common is selling at $20 a share. The company feels $25 would be a fairer offering price for new common, but realizes such an issue couldn't be sold successfully now. So it sells an issue of convertible preferred at $100, with an annual dividend rate of $3.50 and an initial conversion ratio of four shares of common for one share of the convertible preferred. If the market price of American Widget common eventually rises above $25, it becomes profitable to make the conversion. The company, in effect, has right at the start the $25 per share it could not have received until later, if ever, for common.

There's a special appeal for convertible preferreds in today's market. They suit stock buyers who aren't sure whether the market is heading for a new high or a crackup. If the market falls out of bed, the buyer is in the comparatively safe position of holding a preferred instead of a common. If prices soar, he converts and has a capital gain, if he wants to take it.

There are a couple of catches to convertible preferreds, naturally, from the investor's point of view. Before buying a convertible preferred, the buyer has to be sure he will be happy with the preferred if he has to hold it. He will want to be certain that, whatever happens, the company will earn enough to keep up its dividend payments, that the yield will be roughly comparable to non-convertible preferreds of the same class.

All these angles considered, convertible preferred issues still have the following advantages for growth companies: First, they are equity, not debt. Second, convertibles don't increase future fixed charges, as new bond issues or nonconvertible preferreds would. Finally, there's no immediate dilution of the common stock equity. The price of the outstanding common would not ordinarily be as much affected as it would by a new common offering.

Naturally, when the price of the common rises to the point where it's profitable to convert, the existence of the convertible preferred issue is going to create what market chartists call a "resistance zone." American Widget common, for example, will have slow going as it tries to climb above $25, until the preferred is converted. That fact will affect AW common's popularity as a growth stock now, when it is selling at $20.

With all their advantages and drawbacks, convertible issues are still favorites with growth companies, the only type of company that can use them effectively.

—*Business Week*, September 29, 1951, p. 128:3.

## OUR IMPORT FINANCING METHODS: A SURVEY

To ascertain the methods of import trade financing and to sample opinion concerning the adequacy of these methods, the Economic Co-operation Administration, with the assistance of the Department of Commerce, recently made a survey of persons engaged in foreign trade. The principal results of this study may be summarized as follows:

*The United States as an international finance center.* Though the dollar is today the world's leading international standard of account and medium of exchange, the American foreign trade financing market lacks the breadth, depth, and flexibility of the London market of pre-World War II days, the majority of those interviewed believed. There is less variety in the institutions engaged and the instruments employed in foreign trade financing.

*Dominance of the commercial bank.* Most of our import financing transactions are handled by commercial banks. The services which these banks render were regarded by most of the respondents as satisfactory and their charges as reasonable.

However, the dominance of the commercial bank in the field of import financing has certain important consequences:

First, commercial banks, well aware of their responsibility as the guardians of deposits, are unwilling to subject these deposits to excessive risks. This places limits upon both the type and duration of the import transaction financed, and, as a result, the longer-run import relationships are not generally financed by commercial banks.

Second, few institutions utilizing partner's or shareholder's venture capital are engaged in import financing. If more institutions utilizing venture capital entered the field, our imports could be increased, we would be better equipped to play our role of international financial leader, and we could do much more developmental work in the field of foreign trade.

Third, there has been much opposition in the United States to branch banking, and for this reason there is a large number of more or less independent banks in this country. As a result, there are but few banks equipped to handle foreign financing on an adequately large scale. However, the existence of many banks in the United States competing for foreign trade financing is a guaranty against monopoly and provides assurance of competitive financing rates.

Finally, many bankers are reluctant to increase the proportion of their total business devoted to import financing in order to maintain the diversification of portfolio desirable for a commercial bank. The proportion of the banks' total loan

business represented by import financing varied from 1 to 30 per cent in the cities studied.

*Dominance of the letter of credit.* The irrevocable letter of credit is well-nigh universally employed in financing reports. It affords a high degree of protection to all parties to the transaction. Two other reasons for the popularity of the letter of credit are to be found in recent foreign trade developments. The first is the feeling of uncertainty which has characterized an important segment of this trade and has driven exporters to insist upon the guaranties afforded by the letter of credit. Second, many governments have instituted exchange controls, and some of them, before issuing an export license, demand that their exporters have either cash in hand or an irrevocable letter of credit.

One criticism of the letter of credit which was voiced by several importers concerned the many contractual details with which this instrument is burdened today. These add to the cost of imports and create additional paper work, already burdensome in foreign trade.

The cost of the letter of credit itself varies from one-eighth of 1 per cent to 1 per cent of its face value, with a usual minimum fee of $5. The rates of interest on drafts drawn under letters of credit are equally low, ranging from 1½ per cent to 6 per cent per annum, with rates of 1½ per cent to 3 per cent the most commonly mentioned. Many of the bankers interviewed were of the opinion that the rates were too low in view of rising costs of operation.

In general, the heavy reliance placed upon the letter of credit as a means of import financing tends to narrow our market for foreign exchange paper and introduces a certain routine rigidity into our foreign trade practices. Its use, together with the dominance of commercial bank financing, prevents us from giving foreign trade the progressive leadership which our present international position justifies.

—MAX J. WASSERMAN. *The Journal of Finance*, Vol. VI, No. 3, September, 1951, p. 325:8.

## *Employers Contribute Over $2 Billion to Pension Plans*

NEARLY 10 MILLION U. S. workers are now covered by private pension schemes, and their number is growing by 2,000,000 yearly, according to the Wage Stabilization Board.

Employers' contributions alone now total over $2 billion yearly. About $1.8 billion of this is currently going into the funds' invested reserves, more than half of it through insurance companies (and thence into the bond market), and the rest into trust funds with more liberal investment policies.

By the end of this year, the pension funds' invested reserves, in employers' contributions alone, are likely to reach $10 billion. Employees' contributions, plus health and welfare reserves, will boost the total much higher.

—*Time* 11/5/51

SMALL BUSINESS AND THE DEFENSE EFFORT: The small business man has a definite and important place in military production. During the fiscal year ended June 30, 1950, small business firms provided $1,310,615,000, or 24.5 per cent of the dollar volume of all military purchases of supplies, services, and construction.

—Michigan Business Review (University of Michigan) 7/51

## BUYING NEW PLANT FACILITIES?— CHECK ON TAX PAYMENTS FIRST

CONTRARY to popular belief, the purchaser of a business or of additional plant facilities is personally liable for various taxes incurred by the seller if the latter fails to discharge these obligations.

A published notice of intended sale will not give the new owner clear title to the facilities in so far as the previous owner's tax liabilities are concerned. The government, State and Federal, looks to the business, as distinct from the owner who incurred the tax obligations, to effect easy collection.

Probably not one business man in a hundred knows that the purchaser of a business is liable for social security and unemployment insurance taxes collected by the seller and unremitted, as well as income tax withholdings collected by him. In addition, the new owner is liable for the seller's share of the contribution to social security and unemployment insurance taxes.

The only safe course for a buyer to take in protecting himself against tax bills incurred by his predecessor is to demand evidence that such payments have been made. Moreover, this evidence should be carefully scrutinized to make certain that these tax bills have been paid in full down to the moment the new owner takes possession. There is a considerable time lag between the period for which taxes are collected and the date of remitting. At any given time, any going business may be holding unremitted tax funds in varying amounts ranging from a few dollars on up into the thousands of dollars.

An example of the government view on this matter can be seen in the unemployment insurance act of one state. This act provides that "unless a Certificate of Release of Buyer is issued by this department, the purchaser of a business may become personally liable for any unpaid contributions, interest and penalties owed by the seller. A Certificate of Release can be issued only after the seller has filed all required returns and paid all amounts of contributions, penalties, and interest due."

In the case of a seller who is going out of business, it may even be possible that delinquency in remitting taxes is a pressing cause prompting him to sell his business to a buyer uninformed of tax liabilities.

—HAROLD J. ASHE. *The Manufacturing Jeweler*, September 6, 1951, p. 16:1.

## WHAT STOCKHOLDERS WANT TO KNOW

WHAT ARE THE most important facts and figures stockholders want to know about the company in which they own shares? For many years, Western Union has carried out a policy of keeping stockholders informed about company affairs. Among thousands of questions that have been asked and continue to be asked by both new and old stockholders, it finds that the following 10 are most frequently mentioned:

1. *Dividends and Earnings.* Since stockholders are primarily interested in the safety of their investment and a fair and equitable return, the No. 1 topic of stockholder conversation is dividends and

earnings. Up-to-date information about company earnings and other relevant data regularly supplied to company representatives help them answer stockholders' questions quickly and accurately.

2. *Management.* Keen interest in the qualifications and policy views of top management officials is displayed by stockholders. Praise and encouragement are generous when management turns in a good job.

3. *Stocks and Bonds.* Current market prices of stocks and bonds are a favorite subject. The degree of interest depends on the stockholder's viewpoint as an investor or as a speculator.

4. *Development and Research.* Steadily attracting the interest of stockholders is the technical progress of the company. About one-third of all stockholders interviewed voice inquiries and comments on this subject.

5. *Financial and Economic Conditions.* Existing economic conditions, government regulation and taxes, war threats, rising costs, competitive conditions, and the effect of these various factors on earnings and future revenues are subjects of interest to a substantial group of stockholders.

6. *Annual Company Report.* Contrary to some widely-held beliefs about annual reports, stockholders say they depend upon the annual report of the company for information, and the vast majority indicate they read the company's reports closely. Stockholders say they want a down-to-earth report that someone besides a certified public accountant or professional market analyst can understand.

7. *Employee Relations.* Stockholders indicate an increasing awareness of the importance of good employee relations. At the same time, they display close interest in wages, employee benefits, social security taxes, and their effect on company earnings.

8. *Sales and Services.* Since new products and services of the company indicate new revenue sources and increased earnings, stockholders want to know about them.

9. *Company Surplus.* "Surplus," as a term involving invested capital, is not widely understood. Many stockholders believe all surplus consists of cash or other liquid assets, rather than earnings largely reinvested in the business in such forms as plant, equipment, materials, and supplies. Interviews afford the opportunity to clarify this important subject. Stockholders say they want and appreciate clear explanations of such accounting terms.

10. *Stockholder Interview Program.* A vast majority of stockholders approve of the idea of personal calls by company representatives. Occasionally, a stockholder states that he has already obtained all the information desired from the company's report or from his broker. However, most stockholders say they appreciate the opportunity personal calls offer to ask questions and learn more about the business they own.

—WALTER P. MARSHALL. *The Exchange*, September, 1951, p. 5:4.

## Corporate Contributions—Are They Wisely Placed?

CORPORATION EXECUTIVES and directors would react more kindly to fund-raising drives by charitable organizations if the latter would adopt "minimum standards of accounting and control" and make them known when seeking corporate donations, advises Walter Mitchell, Jr., managing director of the Controllers Institute, New York.*

* See *The Controller*, October, 1951.

"Recently," Mr. Mitchell points out, "one large, nationally known charitable organization was criticized by well-informed persons for the size of the expense accounts enjoyed by its top executives, and for the lack of control over such expenditures. Another was criticized for the commission basis of raising funds which has proved profitable to parties involved. Fault was found with a third for charging all the cost of its direct mail to 'education,' even though the bulk of such mailings was for fund-raising purposes.

"What is the minimum information which a business controller should have about any organization before authorizing a gift of his company's funds? Would corporate management do well to set up some minimum standards of accounting and control which would qualify a charitable organization to receive a gift from that company?"

Preliminary inquiry, Mr. Mitchell reports, indicates that well-run charities would welcome such standards because most of them already meet the requirements or could readily comply. Conversely, corporate officers who insist on such standards would be freed from pressure to give donations to unworthy groups.

"Even though most charitable contributions are deductible for tax purposes," Mr. Mitchell's message concludes, "it seems a company's social responsibility, as well as good public relations, to see that gifts be placed where they do the most for the company's employees and the community."

## *Planning and Forecasting in Large Companies—A Survey*

IN A RECENT SURVEY of 37 large enterprises,* it was found that in 20 of the enterprises the organization structure provides for planning or forecasting the following: permanent investment, cash position, sales volume, operating costs, administrative expenses, earnings, and return on investments. Eleven of the companies plan most of these activities more than a year in the future. Many of the companies also plan well ahead on market development, plant locations, plant expansions, and executive personnel.

* "The Structure of Large Enterprises in the United States," published in *Proceedings of the Ninth International Management Congress.* The National Management Council, 501 Fifth Avenue, New York 17, N. Y. 2 vols. $15.

## *1950 Federal Tax Law Fosters Growth of Executive Stock Option Plans*

THE NEW "RESTRICTED OPTION" provision of the 1950 Federal tax law has greatly stimulated the growth of executive stock option plans, according to the Conference Board, which recently made a study of 91 executive stock option and stock purchase plans.

While the compensation of executives has been rising, the study notes, real take-home pay has been decreasing because of high taxes and reduced buying power due to inflation. As a result, the actual dollars-and-cents compensation earned by the executive often ceases to be much of an incentive. Many companies are consequently trying to provide executives with some kind of compensation or "extra benefits" which either will not be subject to tax at the present high rate, or will not be taxed at all. Executive stock ownership plans are a major benefit of this kind.

From the company's standpoint, the advantages of an executive stock ownership plan are: (1) increased executive interest in the growth and profitableness of the enterprise; and (2) the retention of experienced and valuable executives. From

the executive's standpoint, the outstanding advantage of the plan is held to be that it affords him the opportunity to acquire company stock on favorable terms. Less than a fourth of the companies cooperating in the study mention the plan specifically as a means of providing extra compensation.

The three factors chiefly responsible for unsatisfactory experience with earlier executive stock option plans are: (1) a drop in the stock market below the option price; (2) the previous BIR regulation, which has been changed by the new law; and (3) high personal income taxes which make it difficult to accumulate funds for exercising the option.

## Also Recommended • • •

**PERSONAL SAVING IN AN INFLATIONARY ECONOMY.** By Sumner H. Slichter. *The Commercial and Financial Chronicle* (25 Park Place, New York 8, N. Y.), September 27, 1951. Though our economy is fundamentally inflationary, it is in fact less inflationary than it has been in the last 20 years, according to Professor Slichter. He believes that the long-term rise in prices will not affect the policies of small savers in making investments, and suggests two steps to be taken by the government: one, to issue a savings bond bearing a sufficiently attractive interest rate to compensate buyers for possible loss of purchasing power; and two, to issue a bond having some of the characteristics of common stocks—for example, fluctuation in price with the rise and fall of the general price level.

**OBSOLETE MODEL.** *Barron's* (388 Newbury Street, Boston 15, Mass.), October 1, 1951. Since U. S. Savings Bonds have to compete with other securities on their merits, they have been found wanting, in recent years, in terms of risk and yield, according to this editorial. The author suggests that Secretary of the Treasury Snyder follow Canada's example and raise the yield of its Savings Bonds. However, he points out that it is easier for Canada to do this because of sensible debt management and the habit of running a budget surplus.

**MANAGEMENT PLANNING FOR CORPORATE TAXES.** By Edward C. Hunt. *The Controller* (1 East 42 Street, New York 17, N. Y.), October, 1951. This report on management problems resulting from Federal income taxation, which is based on 400 case experiences, indicates possibilities for real savings in aggregate income taxes over a period of years because of changing tax rates. The report points out, for example, that savings may result if inventory activities are properly adjusted each year to take advantage of the shift in the tax rates.

**DEFERRED COMPENSATION FOR EXECUTIVES.** *Estate and Tax Letter* (Mutual Benefit Life Insurance Co., Newark, N. J.), Special Section, October, 1951. This is a detailed discussion of various plans for spreading the receipt of executive income and the impact of taxes on it over a period of time longer than that required to earn the compensation. According to the author, the best way to defer taxes on executive income is to make the executive's compensation dependent on the performance of duties before and after "retirement." This can be arranged by contracting for his services in two different, clearly defined capacities: one prior to retirement age and the other subsequent to it.

**THE CONTROLLER'S PART IN EXECUTIVE INCENTIVE COMPENSATION.** By Arch Patton. *The Controller* (1 East 42 Street, New York 17, N. Y.), October, 1951. The major problem presented by executive incentive compensation plans is that of adequately measuring executive contribution to company profits in allocating a bonus. The recent increase in the number of incentive-type bonus plans increases the responsibility of the controller, particularly in regard to developing yardsticks that will provide some measure of the contribution to profit made by key executives.

**GIVING HAS ITS PROBLEMS TOO.** By Ruby Kidd. *Canadian Business* (530 Board of Trade Building, Montreal, Canada), October, 1951. The author discusses a new volume on philanthropic giving by F. Emerson Andrews which is concerned with such questions as—"What are sound principles of giving to be followed by the business man or corporation?" and "Should big companies set up foundations?" Among the surprises which the book contains is the fact that the lowest income group supplies more than half the contributions received from donors in one year.

## BASIS OF INSURABLE VALUES

DURING a casual conversation with an attorney, an appraiser was subjected to a scathing criticism of the value placed on an industrial plant in reorganization. The appraisal had been requested for insurance purposes, and the appraiser's report had clearly outlined the premise of values, which was the physical valuation—i.e., the cost of reproduction less depreciation. In the discussion of principles of valuation, the attorney stated that anyone would be foolish to insure a building for more than he would expect to get for it through sale.

This attorney was apparently not conversant with the practice of insurance and adjustment companies in the interpretation of "Actual Cash Value" as stipulated in the insurance policy as the basis for loss adjustments. Nor apparently had he analyzed the famous McAnarney decision, which refused to accept market value as the limitation of indemnity.

Unfortunately, many laymen are under the impression that a property can have but one value. H. James Doolittle, in the Aetna *Messenger*, has listed 35 kinds of value, ranging all the way from junk value to cost of reproduction less depreciation.

The McAnarney decision involved an unusual set of circumstances in that it had to do with the complete loss of buildings and equipment of a malting plant in 1928—inoperative because of the Prohibition Act in effect then. Prior to the fire, a "For Sale" sign carried a price of $12,000. The insurance carried was substantially in excess of this amount, and the court denied the contention that the advertised price was the determinative factor in measuring indemnity.

Property appraisals may be required to determine quick liquidation value, orderly liquidation value, fair market value, going concern value, or a physical value without consideration of earning potentialities and other economic factors. A proper appraisal will clearly stipulate the premise of value.

Because insurance is designed to place the property owner in the same position as before a fire and because most fires are partial losses, it is generally held that the proper basis for insuring a property and for loss settlement is the current cost of reproduction less depreciation. On the other hand, for purchase or sale the Fair Market Value is the proper basis. The determination of this value involves not merely a consideration of the physical value of improvements but an investigation of the economic factors, with full consideration for locational advantages or disadvantages, earning potentialities, and sale and asking prices of similar properties.

"Sound Value as part of a going concern" is a term frequently used—and misused. Sound Value represents the current cost of reproduction less allowance for accrued depreciation however caused, but without consideration of earnings. Sound Value is a reasonable basis for restating fixed assets in connection with financing, reorganizations, and mergers. However, Sound Value does not necessarily represent Insurable Value, which contemplates replacement in like kind and quality.

—*Clients' Service Bulletin* (American Appraisal Company), September, 1951, p. 3:1.

# AN UNDERWRITER VIEWS THE MULTIPLE-LINE TREND

THE MOST PROMINENT development in the insurance industry of recent years is multiple-line underwriting. It is the only way in which complete accounts of insurance without gaps in coverage can be achieved. However, there is a definite danger that both producers and buyers may tend to focus exclusively on the future benefits of this development while ignoring the very real problems of the present.

It is likely in the speculative future that a saving in operation will be realized through the elimination of duplicate effort in agency and company accounting and statistical recording; through the elimination of forms; through the replacement of several policies by one; and through superior performance of underwriting personnel, who will handle enlarged duties. The streamlining of a large fleet into one company unit should logically make for future economies. Another major benefit lies in the simplification of statistics. As so-called package multiple-line forms are perfected, rates can be developed on a package basis and statistics compiled on the form as a whole rather than on the breakdown of the perils covered.

However, these likelihoods are in the future. Right now insurance companies are sustaining tremendous expense in arriving at the very systems which will result in the elimination of previous duplication. There are as yet many pressing problems which must be faced.

Individual companies have shown a tendency to place a variety of multiple-peril forms and policies on the market. There has been relatively little uniformity in the wording of the forms or in the rates charged for such coverage. If this tendency continues unabated, it will turn the clock back to the days when each company drafted its own forms and named its own rates. The consequences will be a repetition of the old evils: nonconcurrence in the settling of claims and uncontrollable rate wars, with the added probability that politicians who desire to nationalize the insurance business will step in. All such developments would be detrimental to policyholders and to the general public.

In the normal and uniform development of multiple-line forms and policies, some uncharted ground must be explored. There may be some perils considered which heretofore have not been covered in existing forms. There will be other perils which have not had widespread coverage but which now will gain broad spread through inclusion in multiple coverage.

The addition of these new perils without a comparable rate increase is not only questionable in itself, but there is a definite possibility that producers and insurance buyers may be led to expect types of expanded coverage at close to the going price. Disillusionment is in store. As multiple-peril policies appear with combinations of coverage on which we have statistics, rates must of necessity reflect added and improved coverage.

We are living in a day when a jury awards $400,000 in a bodily injury case, a day when the replacement cost of a 1950 Chevrolet front fender is $42.50 for parts and labor compared with a cost of $18.80 for the same job 10 years ago on a 1940 Chevrolet. This corrosive inflation continues so rapidly that one astute commentator observes that casualty company executives are often tempted to pay a doubtful claim at today's known values, bad as they are, rather than chance

litigation and an unfavorable verdict in the future, when the trend indicates that values will be still higher.

In brief, the insurance industry now pays losses at a price level infinitely higher than the level underlying the rates for many lines. It follows that continuing rate adjustments upward are in order, and since the lines in question will be integral parts of multiple-peril policies, the prospect appears at least probable that higher costs will obtain as these coverages become increasingly available. The public's stake in multiple-line operations lies in eventually obtaining a superior product—not in a chimerical cash saving on premium payments. This thinking must be impressed upon producers and through them upon insurance buyers present and future.

—From an address by B. C. VITT before the South-Eastern Underwriters Association, Pinehurst, N. C.

## *Women Establish New Record in Purchase of Life Insurance*

WOMEN established a record during 1950 when they bought more than 4½ billion dollars worth of new life insurance protection, according to the Institute of Life Insurance. This amount represents the largest purchase ever made in a single year. The total amount of life insurance which women now own, the Institute's survey shows, has reached nearly 45 billion dollars, about a fifth of all life insurance in America.

The 1950 purchases by women included nearly 2 billion dollars each of "ordinary" and "weekly premium" life insurance and almost a billion dollars of group life insurance. Of the women who purchased ordinary life insurance during the year, nearly two-thirds were employed outside their homes, 29 per cent were housewives, and the remaining 7 per cent were in school or living with their families. Women's present ownership of this kind of life insurance is around 23 billion dollars.

—*Facts on Women Workers* (U. S. Dept. of Labor)

## *Trend to Compensation Law Liberalization Continues*

INCREASED BENEFITS or other liberalization of workmen's compensation laws have been enacted thus far this year by the legislatures of at least 23 states, a survey discloses, in continuation of a trend which has spread rapidly in recent years.

States in which such measures were adopted include California, Colorado, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Montana, New Mexico, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Utah, Vermont, Washington, Wisconsin, and Wyoming. Similar bills are still pending in other states.

That the trend is accompanied by the general prospect of increased costs to employers in the form of higher workmen's compensation premium rates is indicated by steps already taken in that direction by several states, including Indiana, Maryland, Oklahoma, and North Carolina.

Another effect of the trend will be increased emphasis on efforts by employers to provide a maximum degree of safety and health for workers.

—BETHUNE JONES in *The Eastern Underwriter* 8/31/51

WORRY is interest paid on trouble before it becomes due—

—*Dean William Ralph Inge*

# ESSENTIALS OF SOUND PROPERTY APPRAISAL

It is said that in 1947 the average industry was under-insured perhaps 40 per cent. Since then, there has been an increase of 44 per cent in construction costs. The implication is plain: unless insurance coverage keeps pace with rising costs—i.e., through continuous appraisal service—there are bound to be many very unsatisfactory loss adjustments.

There are several short-cut methods for determining property values—e.g., the use of bank values, of the square and cubic foot basis, and of index numbers—but none of these yield an acceptable basis for making up a proof of loss.

*Appraisal,* on the other hand, is a sound basis for your property insurance program. It provides authoritative information for coverage and for rating purposes, and if perpetuated through continuous appraisal service, will facilitate the adjustment at the time of loss. The appraisal will set forth clearly what the property is, where it is, and what it is worth.

Before you can determine value you must know what you are going to value; an inventory of the property is essential. Some of the property may be subject to insurance coverage, and other parts of the property may be excluded from your coverage. Land, for instance, is not usually covered, certainly not for fire insurance. Buildings may be covered, but excavation, foundations, and other items below the level of the grade, or below the level of the lowest basement floor, are usually excluded. The insured property may be scattered throughout many buildings and subject to further scattering in the future as the result of subsequent acquisitions, disposals, and transfers. The appraisal, if based on a field inventory, will furnish an orderly record, arranged by types of property and classified according to location by building and floor.

In organized appraisal practice, one of the first things to do is to determine the cost of reproduction new. The prevailing labor and material prices of all the components of the particular property in the locality in which the appraisal is being made should be determined. A complete quantitative analysis of the construction and a determination of unit prices for concrete, for brick work, for lumber, for steel, etc., should be made.

When appraising machinery, it is desirable to obtain actual current quotations from manufacturers or vendors. In former years, all that had to be done when writing for a current quotation was to mention the manufacturer's name and the type and capacity of machine. But today, on an intricate machine in a machine shop, there may be as many as 27 special attachments, and unless the appraiser has been trained for this particular industry, he might overlook the substantial value in the attachments, and limit his consideration to the bare machine. In addition to the current cost of a machine, the appraisal should also include freight, cartage, and installation costs. On minor equipment, such as piping, wiring, transmission lines, etc., complete price lists and pricing data, which are corrected continuously for changes in price levels, are necessary.

Having determined the cost of reproduction new, it becomes necessary to consider the amount of accrued depreciation to be deducted in arriving at the value to be used for insurance purposes. Accrued depreciation is one of the most controversial elements to determine in arriving at value. For insurance purposes, the primary consideration to be given in

determining accrued depreciation is the physical condition of the property. This will reflect not only wear and tear resulting from usage, but also, on the credit side, rejuvenation resulting from repairs and maintenance. Depreciation certainly should not be based upon the multiplication of a depreciation rate by the years of expired life. If you were to use that formula, then much of your existing property would not appear in the records at all. It is very important for your protection in anticipation of a fire loss to keep accurate records of your cost of maintenance and repairs as an offset to current depreciation. If the company adjuster attempted to use the formula of multiplying a depreciation rate by the years of expired life, you can readily offset his contention by showing that the property has been rehabilitated and show the actual expenditures that have been made to rehabilitate that property.

—From an address by CLARENCE CROCHERON (Vice-President, The American Appraisal Company) before the New York Chapter of the National Insurance Buyers Association, 79 John Street, New York 38, N. Y.

## Voluntary Health Plans Pay Major Portion of Doctor Bills, Studies Show

SEVERAL specific studies have been made recently of the financial adequacy of voluntary health insurance. The insurance industry has analyzed a sample of 100,000 surgical claims submitted by seven leading insurance companies. The subscribers in this study were covered by a schedule of reimbursements with a maximum averaging a little under $150. This study showed that in 1947 subscribers with claims were reimbursed, on the average, for 55 per cent of the surgeons' charges.

Similar information about non-profit plans was given in an unpublished study made by the Blue Cross Commission. This showed that during the first six months of 1950 Blue Cross plans paid, on the average, 82 per cent of the subscribers' total hospital bills, and that Blue Shield plans paid 65 per cent of the doctor bills for those services covered by these plans.

—WALTER J. LEAR in *Industrial Medicine and Surgery* 10/51

## Returns to Policyholders from Mutual Underwriters

THE NATION'S mutual fire and casualty insurance companies have returned $715,022,696 to their policyholders during the past five-year period, according to the American Mutual Alliance, Chicago. These savings, from 1946 through 1950, were made possible because of effective management, intensification of loss-prevention programs, and constructive inspections by mutual fire and casualty insurance engineers, L. A. Fitzgerald of the Alliance believes.

Mr. Fitzgerald said that mutual casualty companies returned $365,416,309 to their policyholders during the five-year period. The savings in 1950 were $93,707,858, compared with $52,780,985 in 1946.

Policyholders of mutual fire insurance companies received $349,606,387 in savings over the same five-year period. The report disclosed an increase in savings from $52,286,744 in 1946 to $88,374,914.

These savings are largely those returned to policyholders by mutual companies which charge standard rates and return savings at the end of the policy period, Mr. Fitzgerald explained. They do not include savings in insurance costs which are effected by mutual companies that write at a lower than standard initial rate.

—*The Weekly Underwriter* 10/20/51

## *Fire Insurance Business Highly Competitive*

FIRE INSURANCE is one of the most competitive businesses in the United States, a recent article in *The Spectator* reports.

"In practically every industry in America the transactions of from three to five individual companies dominate the field, accounting for from 70 to more than 90 per cent of the business done. Very often this results in the unjust cry of monopoly by the demagogue."

In the insurance field, *The Spectator* says, only 30 per cent of the total premiums are received by the 10 largest companies. The 25 largest companies account for only 46.7 per cent of the business volume, a drop of 4 per cent compared with the record 75 years ago.

The entire trend in the fire insurance business for the past three generations has been toward wider distribution of business among many competing capital stock fire insurance companies. "This, too, is exactly opposite the trend in many other industries," the article adds.

—*Fire Insurance Facts & Trends* (The National Board of Fire Underwriters), Vol. VII, No. 1

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TOTAL PROPERTY INSURANCE premiums written in 1950 by all types of carriers exceeded $7,500,000,000.

—*The Weekly Underwriter* 10/20/51

# Also Recommended . . .

**DEDUCTIBLE FIRE INSURANCE.** By F. W. Wrenn. *Rough Notes and The Casualty Insurer* (1142 N. Meridian Street, Indianapolis 6, Ind.), October, 1951. The author cites the arguments in favor of deductible insurance and supports them by specific illustrations. To dispel the fear that a deductible plan would promote self-insurance, he relates the experience of his own company, which has written $1,400,000 of annual deductible premiums, of which over 80 per cent was formerly self-insured.

**THE COURT ENDORSES BUSINESS LIFE INSURANCE.** By Forrest L. Morton. *The Spectator* (Chestnut & 56 Streets, Philadelphia 39, Penna.), September, 1951. An excellent endorsement of business life insurance, both for key-man protection and stock retirement, is contained in a recent decision of the U. S. Court of Appeals, which is quoted at some length in this article. This decision should be helpful to the life insurance underwriter who may be finding it difficult to convince the owners of close corporations and small partnerships of the great value of key-man protection.

**MAINTAINING BALANCE IN SOCIAL SECURITY.** By Benjamin B. Kendrick. *The Eastern Underwriter* (41 Maiden Lane, New York 7, N. Y.), October 5, 1951. The author considers the danger that social security in the United States will be over-liberalized and over-expanded as time goes on—a trend which could seriously discourage voluntary provision against personal hazards. He points out that over-liberalized social security would tend to demoralize individuals and drag down our whole economy by blunting normal incentives to work and save.

**INSURANCE IN OUR TIME.** *The Insurance Index* (900 Baxter Avenue, Louisville 4, Ky.), September, 1951. This article presents a survey of the opinions of some top-flight insurance executives and recognized state supervising officials on our current economic problems. These opinions express a uniform optimism that the insurance business is prepared mentally, morally, and spiritually to meet the crisis of our time.

**FROM DESTRUCTION TO PRODUCTION IN 38 DAYS.** By Carl G. Wyder. *Factory Management and Maintenance* (330 West 42 Street, New York 18, N. Y.), October, 1951. This is the story of how a plant, destroyed by fire, was able to get back into production within 38 days after the catastrophe. The article includes a checklist of the lessons learned. As a result of its experience, this company advises against spreading insurance among too many companies in order to avoid confusion in settling claims.

# Survey of Books for Executives

**THE DYNAMICS OF A LABOR MARKET.** By Charles A. Myers and George P. Shultz. Prentice-Hall, Inc., New York, 1951. 215 pages. $4.00.

*Reviewed by Richard S. Ostberg**

In the fall of 1948, a partial mill shutdown in a medium-sized New England community caused considerable unemployment. This book is a report of a research project initiated and guided by Messrs. Myers and Shultz of the Massachusetts Institute of Technology. The purpose of this research was to gather data on the impact of unemployment on a local labor market and to appraise the forces which affected the jobless workers, employed workers, unions, and managements.

The first part of the study concerns itself with the displaced workers, who are divided into two groups: those who left the mill after the shutdown announcement and prior to the actual layoffs and those who were subsequently laid off. Pertinent information regarding the characteristics of these workers and their personal experiences was gathered by interviewers and is presented in tabular form. Particularly revealing answers are given verbatim. Among other things, the interviewers discovered the following: The "quit group" was made up of younger, short-service workers who had more education than those in the laid-off group while the long-service workers who quit were, principally, skilled workers who knew that other job opportunities were available in their trades. Interestingly enough, there were no striking differences in prior job experience between the two groups. The workers who were laid off had not generally spent their working lives in this particular mill. Despite indications of earlier mobility, nearly half the employed workers in the "quit group" and two-thirds in the lay-off group found new jobs in the textile industry. Very few workers were able to secure better jobs, and, more frequently, they were forced to take less skilled and lower-paying work. Although there were individual cases of real hardship, most of the displaced workers, fortunately, came from families in which there were other working members; thus the impact of the mill's closing was modified.

An interesting chapter is devoted to the displaced workers' approach to job-hunting and the knowledge that they had of other jobs and places of employment. Acquaintances and relatives working in various plants proved to be the most important single source of information on job opportunities. Random application at employment offices was another major method of obtaining jobs. Considerable information as to rates of pay, working conditions, etc., was available concerning jobs in other plants. Three-fifths of the employed workers at the time of interview had taken the first job offered. The authors concluded that most workers don't make a systematic search for jobs. This conclusion confirmed earlier labor market studies.

Other portions of the book are devoted to the State Employment Service, unemployment compensation, and job satisfaction. The authors conclude that there is no one fixed scale of job satisfaction that is held by the majority of workers at all times—the attractiveness of any job factor (such as wages or working conditions) is a consequence of the extent to which other job satisfactions or expectations are being fulfilled.

The impact of the mill shutdown on local unions and managements is a worthwhile study. Those managements which enjoyed good working relations with unions did not press their advantage because of the unemployment situation, but local unemployment did appear to weaken unions where they were initially weak. Workers were observed to be more reluctant to bring up trivial grievances, and union wage demands gave way to demands for job security.

This book is highly recommended for those interested in learning more about the dynamics of labor markets. These recorded experiences

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show the effect of a mild business recession on both employers and workers, and, as a result, should prove useful source material to anyone interested in either the economic or human-relations side of unemployment.

**CAPITAL BUDGETING.** By Joel Dean. Columbia University Press, New York, 1951. 174 pages. $5.00.

***Reviewed by William W. Voorhees****

Though capital expenditure decisions are "one of the most demanding responsibilities of top management," the author finds "few guideposts for determining . . . the investments to make." Accordingly, he offers a system of capital budgeting based on economic analysis which is designed to fill the existing gap. The presentation is not complicated by details of administrative routine.

Since capital expenditures are seen from an economic viewpoint, passing judgment on them requires an economic criterion, which is established as "the rate of turnover into cash" or "rate-of-return." The economic approach will mean regarding as capital outlays some items which accounting convenience or tax considerations usually throw into expense classifications.

The important question, "How far ahead shall we look?" must be answered before making up a capital budget. The author advocates one year as the longest period for which precise rate-of-return estimates can be prepared, though he does not decry long-range expansion and capital investment planning covering two and possibly five or more years. Many projects can be tentatively screened and placed "on the shelf." However, many factors—competition, research results, and the like—can make a partial or complete re-orientation necessary.

The author sets up four major determinations in the capital budgeting process: (1) the demand for capital; (2) the available supply of capital; (3) the rationing of available capital; and (4) the timing of its use. He discusses them in that order.

"Demand," says the author, "is a better expression for capital requirements than the quite limited term *need*." "Demand," he says, "can measure the *intensity* of the need for capital by its earnings. Under most circumstances the underlying source of demand for capital is or should be prospective profitability." [Italics supplied.] Methods for assembling capital demand totals and for presenting them are discussed and illustrated. Eleven principles to be observed in making the crucial rate-of-return estimates are discussed together with such important points as payout period versus profitability yield, postponability, allowances for uncertainty, and degrees of refinement in estimates. The need for training in the rate-of-return method of measurement and for post-mortems is emphasized.

Supply of capital is defined as the volume of funds available for investment. Dr. Dean classifies these by sources: (1) internal-depreciation and retained earnings; (2) external-debt and equity capital. Cost of capital and its importance in deciding the best source are discussed at length, and the widespread aversion to use of outside funds is examined. There is also an interesting discussion entitled "A Social View of Autonomous Capital Formation."

Capital rationing is essentially a division of available funds (supply of capital) among the various projects which comprise the demand schedule. Fundamental to the rationing process is selection of the lowest rate-of-return which will make a project acceptable. This rate is termed the "rejection rate" and is a key item in the budgeting process. Four such rates are defined, and, as part of the discussion, a series of curves for use in the rationing process are shown. At this point, the author presents and discusses his basic assumptions in his theory of capital rationing.

Profitability standards "might be different for different categories of investment," says the author. Means of classification are required, and he therefore presents several schemes. First, there are five general bases: (1) source of earnings on capital; (2) competitive orientation, i.e., aggressive or defensive in purpose; (3) form, i.e., plant facilities, product-line improvements, etc.; (4) relation to technical change; (5) strategy aspects. He presents several illustrative classifications by industry—

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automotive, petroleum, and building materials. These demonstrate how there must be variations from industry to industry and between companies within an industry.

The third classification recognizes that different approaches to measures of capital productivity are required and that rate-of-return criteria are more applicable in some cases than in others. In the following order he discusses: (1) replacement investments; (2) expansion investments; (3) product-line investments; (4) strategic investments. Each of these classifications is considered in great detail.

The final chapter covers timing of capital outlays. The question of stabilizing them on a cyclical basis is weighed. The author concludes that such stability represents more loss than gain to the individual company, though from the angle of society as a whole such a policy would be desirable.

This book is well organized and seems as readable as a study of such a technical subject can be made. However, thought-provoking works are never light reading, and *Capital Budgeting* is no exception.

**QUALITY CONTROL:** ***Principles, Practice and Administration.*** By A. V. Feigenbaum. McGraw-Hill Book Company, Inc., 1951. 443 pages. $7.00.

***Reviewed by J. Manuele****

During World War II, the War Production Board sponsored a number of courses to acquaint industry with the principles and the advantages of statistical quality control. These courses created a tremendous amount of interest in the statistical method of quality control with the result that a great number of books have been published on the subject during the last half-dozen years. Many of these books, however, have been merely poor adaptations of previously published material, presenting no new information.

It is refreshing, therefore, to come across a new book which treats the subject of quality control from a fresh point of view and which presents previously unpublished material. Mr. Feigenbaum, by daring to be original, makes a distinct contribution to the technique of quality control. As a result, this book should be valuable to the chief inspector and manager of quality control who have been looking for a practical work on this subject.

As the author states in the introduction, the book is divided into four parts. Parts I and IV are of interest to the manager of quality control who seeks arguments to help him sell quality control to top management. This reviewer could never understand why top management had to be sold on quality control, for if the manager of quality control is successful in applying its principles and methods, the results will speak for themselves, and management will ask for more.

There may be quality control people, however, who wish to explain quality control to their supervisors and who need assistance in describing this new tool of management, its method of application, and its expected results. Part IV will be found particularly valuable by these people. It offers a plan for presenting a quality control program to a group and for explaining its principles to those persons who need persuading. The author illustrates this section by giving an example in which lantern slides are used. While this method of presentation may appear elementary to the experienced manager of quality control, it has been tested by experience and will be found most valuable by the new quality control supervisor who wishes to make a good impression and who needs assistance in getting started.

Parts II and III are the real heart of the book. The statistical point of view is presented in Part II. Following a thorough treatment of the frequency distribution curve, control charts are gradually introduced. However, the discussion is not so elementary as to bore the student who has some familiarity with the subject; neither is it so involved as to discourage the casual reader who has no inclination "to dig." The author spends considerable time explaining how the frequency distribution curve can be used for judging an operation and predicting the future possible trend of quality. In this section, Mr. Feigenbaum's practical experience makes itself felt, for he describes a most valuable tool in language the inspector can understand.

The section on control charts explains the

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"X-bar and R" and "p" charts in clear language. The author leads the student, step by step, through the mysteries of control charts and their interpretation. Included are several valuable tables designed to reduce the amount of computational work. Again the presentation is not boringly elementary, nor does it require of the reader a familiarity with higher mathematics.

A chapter in Part II is devoted to sampling tables. The method of treatment is practical, and no theoretical or mathematical material is introduced to explain the basis for sampling. This is in keeping with the general style of the book.

The author does well in omitting detailed definitions of such terms as (AOQL), (AQL), and (LTPD). Even MIL-STD-105A passes lightly over the term (AQL) by stating it "is a nominal value expressed in terms of per cent defective or defects per hundred units." However, he does present a number of operating characteristic curves and explains lucidly the risks involved in sampling and the product quality to be expected in lots accepted by various sampling plans.

In Part III the author treats a subject which the reviewer has not seen presented in any other book on quality control—the analysis of a new design before its large-scale manufacture is actually begun. The author calls it "new-design control." This is a type of control which deserves the searching light of statistical methods so that the design and the quality of pilot runs may be analyzed and predictions of performance on quantity production run units made. Many production "bugs" could be prevented by this pre-production analysis, in which statistical methods for predicting probable quality are used. This section alone is worth the price of the book.

The method of running an incoming-material inspection department will be found valuable by inspectors who have traditionally inspected either everything received or nothing. A sampling plan which can be used in the receiving department is described, and a printed form is presented which may be used for reporting rejected lots to the purchasing department and the design engineering group.

A more detailed discussion of product control would have added to the value of the book. Mr. Feigenbaum does deserve credit for his presentation, however, since this subject is not usually discussed by other writers on quality control. The quality audit is to quality control what the accounting audit is to bookkeeping. Many quality control supervisors do not dare make a quality audit for fear of consequences, especially if management has not yet "been sold on quality control." Though this section on product control might have been placed closer to the section on control charts, it is enough that it has been included.

All in all, this book is a good practical treatise on quality control. It does not pretend to be deeply mathematical, but the numerous references to original sources should satisfy the most inquiring student, who insists on knowing the "why" of each statistical statement made. The language is easily understood, and the author's examples illustrate the subject matter very adequately.

## PRACTICAL BUSINESS PSYCHOLOGY.

By Donald A. Laird and Eleanor C. Laird. The Gregg Publishing Company, New York, 1951. 561 pages. $4.50.

***Reviewed by J. E. Bathurst****

This book is an unusual compilation of psychological facts regarding personal efficiency and leadership qualities and is, no doubt, one of the best in these areas. To determine the material to be included and the approach which would be the most practical and effective, the authors surveyed teachers, students, and industrial trainers throughout the country. As a result, any educational or training director in an educational institution or in industry will find this book very useful.

It has an interesting style which makes it not only instructive but delightful to read as well. The material is divided into chapters in a conventional manner so that the book can easily be used as a text. Business and industrial executives should find it equally useful as a reference work.

In view of the purposes and objectives of this work, it is difficult to offer a criticism.

* Executive Vice President, The National Association of Foremen, Dayton, Ohio.

However, the reviewer wishes that the great body of facts and information included could have been presented in more usable form for the busy executive.

Those of us in executive positions know that there are two very definite points of view that can be brought to bear upon any material: that of the teacher or trainer and that of the operating executive. Presumably, the executive thinks primarily in terms of action and results; the teacher or trainer primarily in terms of ideas. Perhaps the authors will honor us with another book which will put "legs" on the great body of facts and information they have here given us, thus making them more usable for operating management.

## *Briefer Book Notes*

**[Please order books directly from publishers]**

**BASIC ELEMENTS OF A FREE, DYNAMIC SOCIETY:** *Condensed Record of a Round Table Discussion Held Under the Sponsorship of The Advertising Council.* The Macmillan Company, New York, 1951. 91 pages. $1.00. Here, distilled from a carefully programmed round-table discussion, is a fresh, full restatement of the free world doctrine as seen by a group of distinguished Americans. An interplay of brilliant minds is revealed when such men as Paul G. Hoffman, Chester Barnard, Russell W. Davenport, Peter F. Drucker, and Walter H. Wheeler, Jr., discuss these and similar questions: What is the American way of life? Is leadership in America moral? Are we moving toward a classless society? Is our conception of property changing? Are we exhausting our "spiritual capital"? How real is our sense of collective responsibility?

**PERSONNEL ADMINISTRATION:** *A Point of View and a Method.* By Paul Pigors and Charles A. Myers. McGraw-Hill Book Company, Inc., New York, 1951. Second revised edition. 614 pages. $6.00. This text offers an excellent integration of the findings of human relations research with the practices and problems of personnel administration. Emphasis is placed upon the philosophy of personnel administration rather than on detailed analyses of systems and procedures. Originally published in 1947, this book now appears in a revised second edition that takes account of new ideas and recently published material.

**GOVERNMENT AND COLLECTIVE BARGAINING.** By Fred Witney. J. B. Lippincott Company, 333 West Lake Street, Chicago 6, Illinois, 1951. 741 pages. $7.50. This comprehensive text traces the major trends in the laws governing labor relations, the reasons for these trends, and their effects on the over-all functioning of collective bargaining. The author devotes much attention to current problems of collective bargaining, and discusses here in detail the effects of the Taft-Hartley Act, experiences with wartime controls of collective bargaining, and other problems having important implications for public policy.

**UNION LEADERSHIP TRAINING:** *A Handbook of Tools & Techniques.* By A. A. Liveright. Harper & Brothers, New York, 1951. 265 pages. $3.50, cloth; $2.50, paper. Most of the teaching devices described here can be used in any kind of leadership training program. These include the lecture method, group discussion, audio-visual aids, role-playing, and practice in the techniques of bargaining negotiation.

**COMPULSORY LABOR ARBITRATION IN FRANCE 1936-1939.** By Joel Colton. King's Crown Press, Columbia University, New York, 1951. 220 pages. $3.25. Traces the history of an experiment in the compulsory arbitration of labor disputes which was initiated by the French Popular Front government in 1936 and remained in operation under succeeding ministries until the coming of the war in September, 1939. Part I of the book describes how compulsory arbitration came to be introduced in France, the kind of system that was adopted, and the reforms instituted when the system received permanent status in 1938. Part II is concerned with a selected number of problems that emerged in the operation of the arbitration system, and its results.

**THE CORPORATION INCOME TAX.** By Richard Goode. John Wiley & Sons, Inc., New York, 1951. 242 pages. $3.00. An appraisal emphasizing effects of the corporation income tax on national income and employment, on wages and on prices, and treating broad political aspects of tax policy. Many of the author's conclusions will not meet with general agreement.

## *Publications Received*

**[Please order directly from publishers]**

**WAGE STRUCTURE: *Electric and Gas Utilities 1950.*** Series 2, Number 79. Bureau of Labor Statistics, United States Department of Labor, Washington, D. C. 1951. 48 pages. Gratis.

**POSITION CLASSIFICATION AND SALARY ADMINISTRATION IN LIBRARIES.** Prepared by the Subcommittee on Job Analysis Manual and Classification and Pay Plan Manual of the A. L. A. Board on Personnel Administration. American Library Association, Chicago, 1951. 81 pages. $1.25.

**COMPANY PROCEDURAL MANUAL ON EQUIPMENT ANALYSIS: *A Manual of Policy and Procedure for Determining Economic Advantage of New Equipment, Re-equipment or Replacement, and Plant Expansion.*** William Kelly & Company, 120 South La Salle Street, Chicago, Ill. 1951. 45 pages. $5.00.

**CLASSIFIED PROVISIONS OF THIRTY-ONE PENSION AGREEMENTS FOR WAGE EARNERS IN THE IRON AND STEEL INDUSTRY.** American Iron and Steel Institute, 350 Fifth Avenue, New York 1, N. Y. 1951. 228 pages. Gratis.

**EXECUTIVE TALENT: ITS IMPORTANCE AND DEVELOPMENT.** By Frank W. Pierce and George B. Corless. Industrial Relations Section, California Institute of Technology, Pasadena 4, Calif. 1951. 32 pages. $1.00.

**THE NEW SECRETARY'S DESK BOOK: *A Modern Guide to Correct English with Approved Forms for Business, Official, and Social Correspondence, and Other Useful Information.*** The John C. Winston Company, 1010 Arch Street, Philadelphia, Penna. 1951. Revised edition (including *The Winston Dictionary*). 1340 pages. $4.95.

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